CODERED

Ontario is the second worst economy in Canada for younger generations

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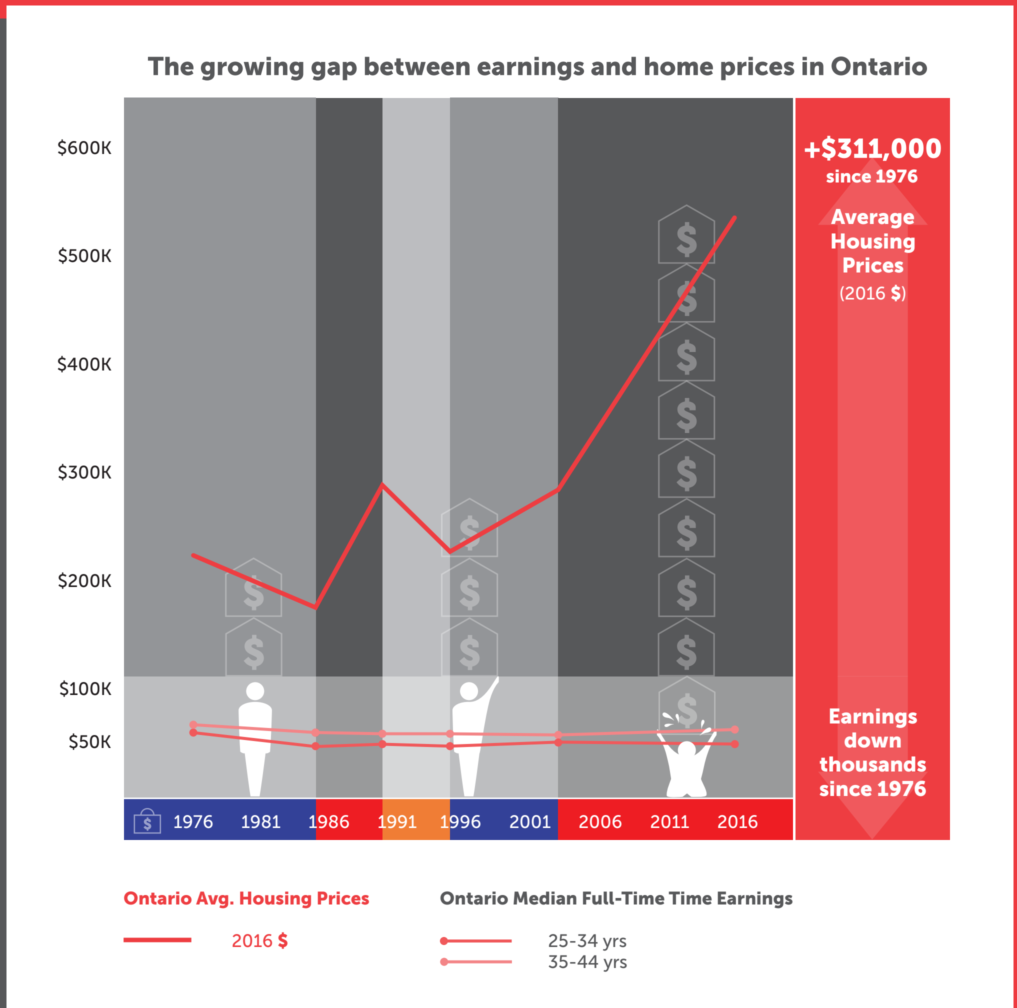

GENERATION squeeze

Suit up,
Spread out,
Squeeze back.

Generation Squeeze is building a voice for Canadians in our 20s, 30s, 40s and our children in the world of politics and the marketplace. We are a national collaboration. Vancity Community Foundation is the entity through which our charitable activities are delivered. The Association for Generational Equity (AGE) is the home for our non-profit social enterprise. Research is coordinated by Dr. Paul Kershaw in his University of BC research and knowledge translation lab.

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Executive Summary

The next election in Ontario is just a year off. Since many citizens will cast their ballot for the party they believe will best steward the provincial economy, Generation Squeeze has prepared this study to showcase the performance of the Ontario economy relative to other provinces and over time. Our analysis gives priority to how the economy performs for younger generations (under age 45). As much as possible, we explore data that go back to 1976, and examine trends over the terms in office of the Ontario Liberals (since 2003), Ontario Progressive Conservatives (PC) (1995–2003), the Ontario NDP (1990–1995), the Ontario Liberals (1985–1990) and the Ontario PC government (prior to 1985).

The results are clear and concerning. They show that **Ontario is now the worst performing economy in Canada for younger generations east of the Rockies**.

At first glance, this finding may surprise some. Canadian governments often judge the success of provincial and national economies by reference to economic growth rates and employment trends. The data we report below will show that Ontario is currently performing reasonably well by comparison with most provinces according to these metrics.

In this study, however, we show that blunt growth and employment rates provide incomplete, and sometimes distracting, signals about the success of an economy, especially when rising real estate prices are a key driver of these trends. We dig deeper to examine the actual incomes that Ontarians earn, our costs of living, personal debt levels, etc. When we turn our attention to these indicators, the data clearly reveal that the standard of living has deteriorated more dramatically for younger people in Ontario in recent years than anywhere else in the country other than British Columbia. For example, we find:

Good-paying jobs are harder to secure: Full-time earnings have fallen $4,600 by comparison with when today's aging population was young. Ontario is the only province in Canada to report a decline in full-time earnings for the typical 25–34 year old since 2003.

Home-ownership is much harder: Ontario is losing control of home prices. It took five years of full-time work to save a 20 per cent down-payment on an average-priced Ontario home in 1976–80. By 2003, it took eight years when the Ontario Liberals formed government. Now, it takes 15 years on average. As the cost of housing surges, municipal and provincial governments in Ontario risk replicating the mistakes of B.C. decision-makers who waited too long to address the harm created for younger generations by economic growth strategies that rely on rising real estate prices which leave behind earnings.

Starting in 2017, the Ontario Liberal government changed tax policy to shelter more first-time home-buyers from the land transfer tax if the cost of their home falls below $368,000. This means first-time home-buyers are now exempted from $4,000 in land transfer taxes—up from $2,000 the year before. While a $2,000 savings is welcome, we must still urgently adapt policy given that younger generations face average home prices that have increased by over $300,000 (after inflation) by comparison with when today's aging population was young.

Young residents can't keep as much of their hard-earned money: Hard work pays off less for young citizens in Ontario now by comparison with the past, and less than in anywhere else in Canada east of British Columbia. We now have to work years more to save a down payment; a month-and-a-half more each year to pay the mortgage on an average-priced home; and rents require more work from us as well.

Hard work pays off less throughout diverse regions of Ontario, including Windsor, London, Kitchener, Hamilton, Ottawa and especially the Greater Toronto Area (GTA). Since 2003, the data show that typical younger Ontarians have lost seven years of hard work when measured by the amount of labour required to save for a down payment on an average-priced home.

Debt is up: When measured as a share of our economy, the Ontario provincial government debt is among the highest in the country, well above the average of all provinces combined. It now equals approximately $22,500 per person in Ontario, which is up from around $14,000 in 2003. Ontario has the third highest per capita provincial debt level in the country—and that debt is left primarily to younger generations to pay.

The provincial government's approach to managing its fiscal-balance sheet and the economy has also imposed alarming amounts of personal debt on younger Ontarians. Personal debt has risen by at least $19,000 since 1999 for the typical person under age 35, and nearly $50,000 for the typical 35–44 year old with no, or only modest gains, in net wealth. In addition to high home costs, the rise in personal debt reflects uncontained costs for postsecondary, child care, etc. University undergraduate tuition has increased more in Ontario since 2003 than in any other province, and child care fees for toddlers are nearly 50 per cent higher than undergraduate university tuition. That said, the Ontario Liberal government merits credit for implementing full-day kindergarten for four and five-year-olds, because these services have helped to reduce families' child care expenses. The government has also recently reorganized provincial funding for postsecondary with the intention to minimize tuition costs for families with low- and middle-incomes.

Ontarians produce 12.4 tonnes of greenhouse gas per person as of 2014. By Canadian standards, this is relatively strong with only Quebec and PEI reporting a lower per capita carbon footprint. No province has reduced its carbon footprint more than Ontario since 1990; and most of those reductions have been achieved since 2003 under the current Ontario Liberal government. Nevertheless, the carbon footprint in Ontario remains around 10 times higher than what the Intergovernmental Panel on Climate Change advises is the upper limit for sustainability in the coming decades—1.2 tonnes of greenhouse gas emissions per person. This leaves a large environmental debt for younger residents of Ontario to cope with as the risks anticipated from global temperature increases loom ever closer.

Early childhood vulnerability: When we squeeze adults in their prime child rearing years for time, money, services and environmentally, we cannot help but squeeze the children they are raising. Data show that 35,000 children enter the formal school system in Ontario each year vulnerable in ways that mean they are more likely to fail, go to jail and wind up sick as adults. Evidence suggests more than 20,000 of these cases each year could be avoided if governments were to adapt policy in ways that ease the time, money, service and environmental squeeze on the generations raising young children.

The introduction of full-day-kindergarten for four- and five-year-olds is an important start in this direction. However, much more work needs to be done to ease the squeeze on the generations raising young children, especially as home prices leave their earnings behind.

Growth for What?

When decision-makers point with pride to Ontario's relatively strong rates of economic growth and unemployment by comparison with other provinces in the current context, Generation Squeeze encourages all Ontarians to step back and consider the following.

Gross domestic product (GDP) and employment indicators are insufficient metrics to evaluate the performance of the Ontario economy. It is time we asked instead: What kind of growth are we achieving? Growth that compromises the standard of living for Ontarians in our 20s, 30s, and 40s, along with our children, is clearly not an adequate measure of the success of our economy. At bottom, we should judge an economy over time in terms of whether it requires more, or less, work from citizens to cover our major costs of living, and whether it is sustainable. In these regards, the growth that Ontario has reported of late has failed its younger citizens.

It is also worth putting the current growth and employment numbers in historical context. The annual rate of growth since Ms. Wynne took office as Premier (2.6 per cent) was surpassed by multiple previous governments over the last decades. While the recent one percentage point reduction in unemployment rates for Ontarians age 25– 44 is laudable, unemployment fell more for younger citizens during the PC government of 1995 to 2003, as it also did during the previous Liberal government between 1985 and 1990.

What citizens do with this information when deciding how to cast their ballot in the next election is a personal choice. Generation Squeeze does not recommend or endorse any political party. We simply present data to help citizens become better-informed when making political decisions. We also encourage citizens to urge all political parties to integrate into their election platforms the following 10 policy principles to recalibrate the economy to work for all generations.

1. **Monitor and report the age distribution of government spending**
2. **Prioritize homes first, investments second**
3. **Encourage density, diversity and efficiency to increase the supply of suitable homes**
4. **Level the playing-field between renters and owners**
5. **Innovate with new tenure and equity models to achieve more below-market housing**
6. **Revise tax policy to slow down the escalation of home prices and raise revenue fairly for medical care and other social policy**
7. **Recognize low interest rates cut both ways for younger generations**
8. **Modernize the treatment of age in housing policy**
9. **Go beyond housing policy to ensure child care, parental leave, transit, etc. no longer add up to mortgage-sized payments**
10. **Implement the "Acting on Climate Change" recommendations developed by more than 60 Canadian researchers representing every province**

We develop these principles in the full report, because we believe governments must start with clear first principles in order to ease the squeeze on younger Canadians in our cities, provinces and nationally. As we consider the policy adaptations motivated by these principles, we know that specific policy adjustments may need to address the particularities of communities and regions, and may evolve over time as circumstances change or new research evidence becomes available.

Generation Squeeze invites those motivated by a vision of Ontario and Canada that works for all generations to join us in endorsing and promoting these policy principles before, during and after the election. Suit Up, Spread Out and Squeeze Back with us (www.gensqueeze.ca), because we know that politics responds to those who organize and show up.

#CodeRed: Ontario is the second worst economy in Canada for younger generations

Full Report

As we approach the Ontario election in 2018, all provincial political parties will be jockeying for position to earn the trust of Ontarians. Many citizens will cast their ballot based on which party they believe will best steward the provincial economy. To support voters to make informed decisions, Generation Squeeze has prepared this study to showcase the performance of the Ontario economy relative to other provinces and over time, with a priority focus on how the economy performs for younger generations (under age 45).

Whenever available data permit, we analyze the Ontario economy today compared to 1976, which is around the time that the majority of today's aging population (Baby Boomers) started out as young adults. This allows us to examine how circumstances have changed for generations of young adults over the last four decades. In addition, we break down the data to examine economic indicators that coincided with different governments in power, paying particular attention to trends:

- following 2013 when premier Wynne became the leader of government;
- since 2003 when the Ontario Liberals came to power;
- between 1995 and 2003, while the Ontario Progressive Conservatives held office;
- between 1990 and 1995, while the Ontario NDP held office;
- between 1985 and 1990, while the Ontario Liberals governed; and
- before 1985, during which Ontario Progressive Conservatives were in power.

The conclusion revealed by the data is alarming: **Hard work pays off less now in Ontario than it did in the past**. Full-time earnings have fallen thousands of dollars by comparison with when today's aging population was young. All the while, home prices have skyrocketed by hundreds of thousands of dollars (after inflation). The result is that it takes much more work to cover the major cost of living—housing. On top of all this extra work, younger generations are amassing more personal, government and environmental debt. The deterioration in the standard of living is frightening—akin to an escalator that is going down far faster than most young adults can scramble up.

At Generation Squeeze, we believe this #CodeRed deterioration in the standard of living for younger Ontarians must become a priority issue for municipal, provincial and federal levels of government. In anticipation of the provincial election campaign next year, we ask all parties to propose bold policy solutions in support of a vision of Ontario and Canada that works for all generations. We present the data below to help guide policy makers in their deliberations about the scale of the problems facing younger Ontarians in an economy that is badly letting them down by comparison with the past. We conclude the study with 10 policy principles to recalibrate the economy to work for all generations.

We also hope the evidence of the problem and solutions that we present will light a fire under younger generations so that we engage more actively with decision makers in the world of politics. Politics generally responds only to those who organize and show up, including well in advance of elections when parties are designing the platforms. At Generation Squeeze, we do not care which party people choose to support. But we do know that all parties are more likely to run on platforms that will ease the time, money, service and environmental squeeze facing younger generations if we build a powerful political voice, and deploy it in advance of voting day.

Growth and Jobs

Tables 1 and 2 anticipate what will be a dominant focus in the next provincial election: growth and jobs. Annual GDP growth in Ontario since 2013 (when Premier Wynne took office) is 2.6 per cent, and Ontario's unemployment rate for citizens age 25–44 is 5.7 per cent. Both indicators are strong by comparison with other provinces in the current context. We can therefore expect that the incumbent Ontario Liberal government will routinely features these indicators when publicizing the province's economic progress.

In historical context, the GDP and employment trends of the last few years are not particularly noteworthy. For instance, Tables 1 and 2 show that the economy grew faster, and unemployment fell more for younger Ontarians, during previous Ontario PC and Liberal governments.

Table 1. Annual Change in GDP (%)

	since 1981	since 2013	since 2003	2003–1995	1995–1990	1990–1985
		Premier Wynne	ON Liberals	ON PC	ON NDP	ON Liberals
Canada	2.4	1.8	1.9	3.3	1.7	2.6
Newfoundland	2.3	−1.5	1.0	4.7	1.4	2.7
Prince Edward Island	2.4	1.4	1.8	2.6	3.1	2.6
Nova Scotia	1.9	0.9	0.9	3.1	0.3	1.6
New Brunswick	2.0	1.1	0.7	2.8	1.9	2.4
Quebec	1.9	1.3	1.5	2.9	1.3	2.1
Ontario	**2.6**	**2.6**	**1.6**	**3.8**	**1.6**	**3.0**
Manitoba	2.1	1.9	2.5	2.6	0.3	1.3
Saskatchewan	2.1	0.6	2.4	2.2	1.5	2.4
Alberta	3.0	0.7	3.0	3.6	3.5	2.1
British Columbia	2.5	3.3	2.7	2.7	2.6	3.5

Source: Author Calculations based on Statistics Canada CANSIM Table 384-0038. "Gross domestic product, expenditure-based, provincial and territorial, annually (Dollars unless specified)"

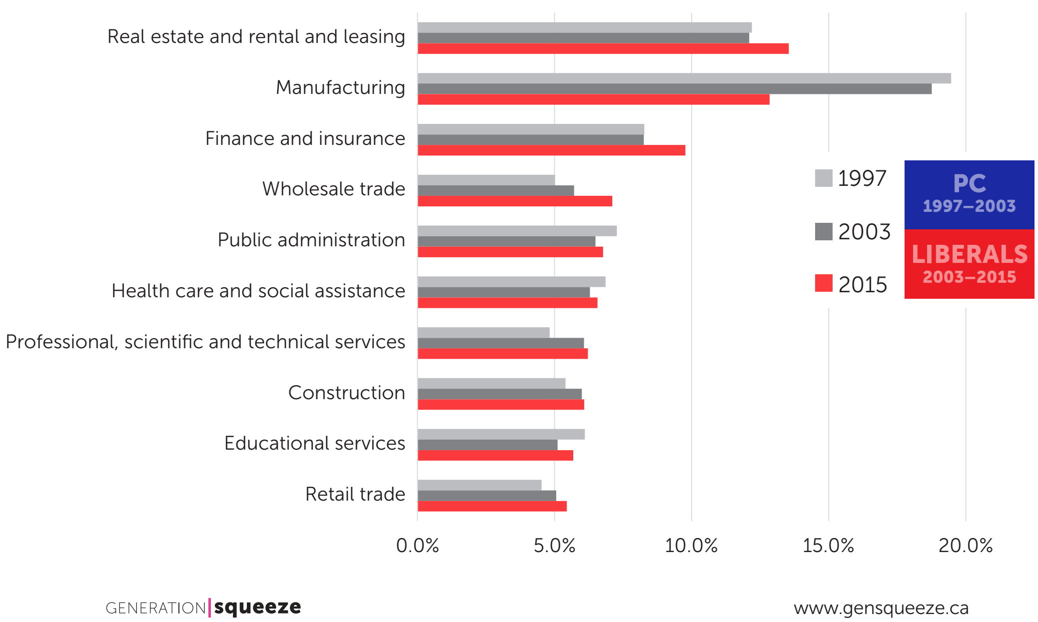
Table 2. Unemployment Rate (%), Age 25–44

	2016	Change since 1976/80	Change since 2013	Change since 2003	2003–1995	1995–1990	1990–1985	1985–1976
			Premier Wynne	ON Liberals	ON PC	ON NDP	ON Liberals	ON PC
Canada	6.2	−0.1	+0.2	−0.6	−2.2	+1.3	−1.9	+3.9
Newfoundland	12.4	−1.5	+3.4	−3.3	−1.3	+1.4	−2.5	+6.8
Prince Edward Island	8.9	+0.4	−0.8	−1.6	−4.8	+0.4	+2.6	+4.7
Nova Scotia	7.4	−0.4	−0.5	−0.6	−3.6	+1.2	−1.8	+4.9
New Brunswick	7.8	−1.8	−1.1	−1.8	−1.3	0.0	−3.3	+4.5
Quebec	6.4	−1.2	0.0	−2.1	−2.5	+1.2	−1.4	+4.6
Ontario	**5.7**	**+0.8**	**−0.9**	**−0.3**	**−2.2**	**+2.4**	**−1.3**	**+1.9**
Manitoba	5.2	+0.3	+0.4	+0.7	−2.2	0.0	−0.6	+3.5
Saskatchewan	5.8	+1.0	+2.0	+0.6	−1.5	0.0	−0.6	+4.0
Alberta	7.0	+1.6	+3.4	+2.6	−2.8	+0.7	−2.3	+6.1
British Columbia	5.5	−0.7	−0.2	−1.8	−0.8	−0.1	−5.1	+6.7

Source: Author Calculations based on Statistics Canada CANSIM Table 282-0002 "Labour force survey estimates (LFS), by sex and detailed age group, annually (Persons unless specified)."

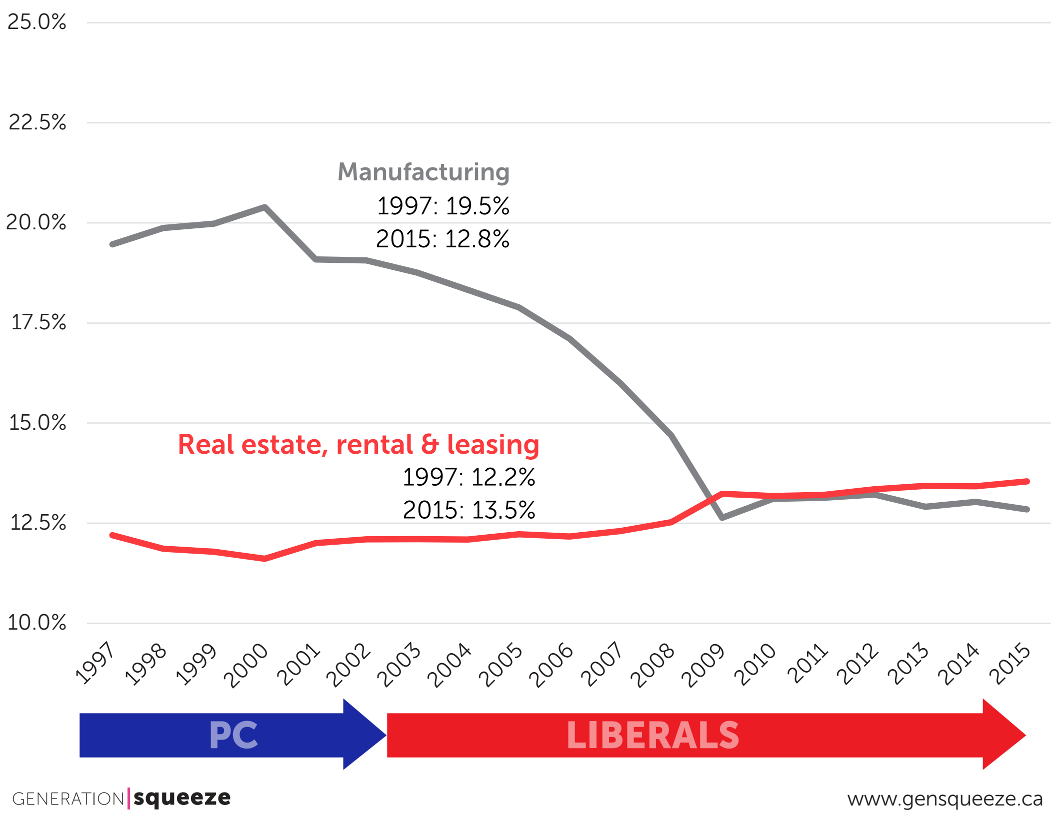
The growth that Ontario has experienced over the last two decades reflects acceleration in the real estate sector, and deceleration in manufacturing, especially after the global financial crisis of 2008 (See Figure 1). Real estate, rental and leasing now represent the largest share of Ontario's total gross domestic product (Figure 2).

Figure 1. Ontario's Top Economic Sectors: Share of Gross Domestic Product, 1997, 2001 and 2015



Source: Statistics Canada. Table 379-0030 - Gross domestic product (GDP) at basic prices, by North American Industry Classification System (NAICS), provinces and territories, annual (dollars)

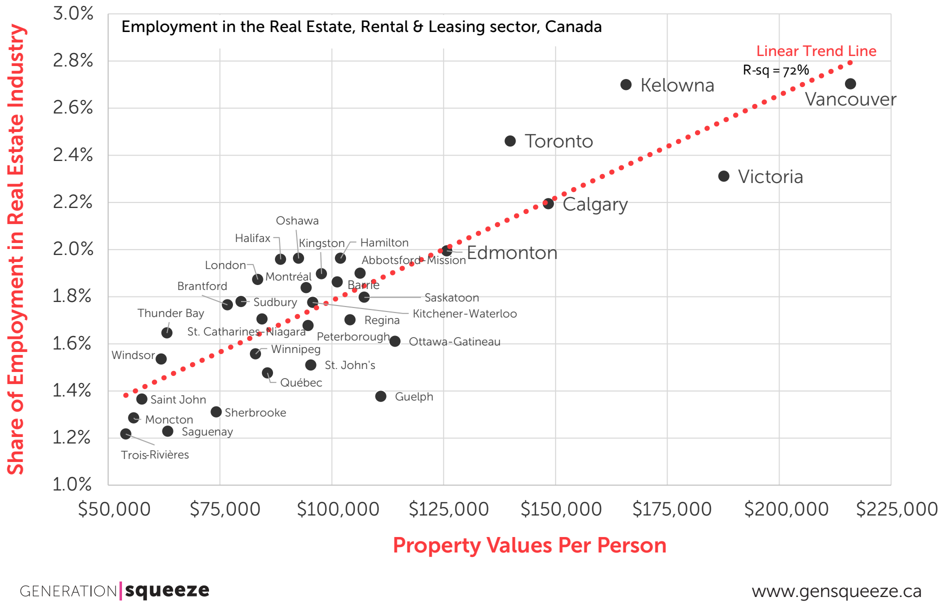
Figure 2. Ontario's Real Estate & Manufacturing Sectors: Share of Gross Domestic Product, 1997–2015



Source: Statistics Canada. Table 379-0030 - Gross domestic product (GDP) at basic prices, by North American Industry Classification System (NAICS), provinces and territories, annual (dollars)

Despite the fact that real estate, rental and leasing now represent nearly 14 per cent of the economy, data collected by the Neighbourhood Change Research Partnership at the University of Toronto suggest that a much smaller proportion of Ontarians find employment in that industry. Even in Toronto, where home prices are higher than anywhere else in the province, Figure 3 shows that real estate, rental and leasing represent less than three per cent of employment. These data suggest that the escalating home prices that have been a prime driver of Ontario's economic growth in recent years have not also grown employment opportunities at a corresponding pace. Such growth comes with the cost that the wages which younger Ontarians can earn in the labour market fall behind their major cost of living—housing. We examine this cost in more detail in the following sections.

Figure 3. Residential Property Values and Real Estate Employment Census Metropolitan areas, Canada, 2011



Source: Statistics Canada, CANSIM. Table 026-0018. National Household Survey, 2011, Table 99-012-X2011030. Chart prepared by the Neighbourhood Change Research Partnership, www.NeighbourhoodChange.ca.

Managing the Economy: What kind of growth? What kind of jobs?

High level GDP and employment indicators are insufficient metrics on their own to evaluate the performance of the Ontario economy, especially when the real estate sector is now the biggest contributor to Ontario's gross domestic product. We need to dig deeper to analyze how economic growth affected the standard of living for residents, and influenced the quality of the jobs that were created—especially how much they pay. At bottom, it is important to learn whether the economy requires more, or less, work from citizens to cover major costs of living. In this regard, the growth that Ontario has reported of late is failing its younger citizens. Although the problems in Ontario are not yet as grave as they are in British Columbia, the standard of living in Ontario is eroding quickly for younger generations, and there is little time left for Ontario to adapt before it suffers the same fate.

Ontario is the only province where full-time earnings for young adults have been falling since 2003

Table 3 analyzes the change in earnings for typical (i.e. median) Canadians age 25–34 over time. The most recent data from Statistics Canada are for 2014, and all data for previous years in Table 3 have been inflation-adjusted into 2014 currency.

In this section, we focus attention on full-time, full-year work so as not to let the rise in part-time jobs since 1976 compromise the comparisons of earnings over time. We also examine the average change for the period from 2010–2014 compared to 1976–1980 in order to guard against cherry picking particular years in the business cycle when making historical comparisons. This results in a more conservative analysis than, for example, the more straightforward comparison between 1976 and 2014, which shows an even steeper decline in earnings.

The data are clear that young people earn less in Ontario today by comparison with when today's aging population was young back in 1976–1980. Full-time earnings are down $4,600, which means young people in Ontario now earn less than the national average. The drop in earnings in Ontario was not as severe as in B.C., which reports a decline of over $8,000. Wages rose for young people in Alberta and were stable in Saskatchewan, but these patterns coincide with the largest carbon footprints in Canada—over 40 times higher than what the Intergovernmental Panel on Climate Change estimates will protect the climate for younger Canadians in the decades ahead (See Table 10). As a generational cohort, young Canadians cannot escape a financial squeeze by exacerbating the environmental squeeze. We need a secure climate and secure earnings.

As full-time earnings fell $4,600 for the typical 25–34 year old in Ontario, they were stable for typical 35–44 year old; increased $2,100 for the typical 45–54 year old; and increased $1,400 for the typical 55–64 year old.

Over the same period, income for the typical person age 65-plus increased $12,480 since 1976–80 (but we do not control for full-time hours for this age group because relatively few continue in employment). This increase in earnings for Ontario seniors surpassed the gain reported nationally for those over age 65. That said, seniors continue to report lower average incomes than do younger age groups in our province and across the country in keeping with their shift from paid work into retirement.

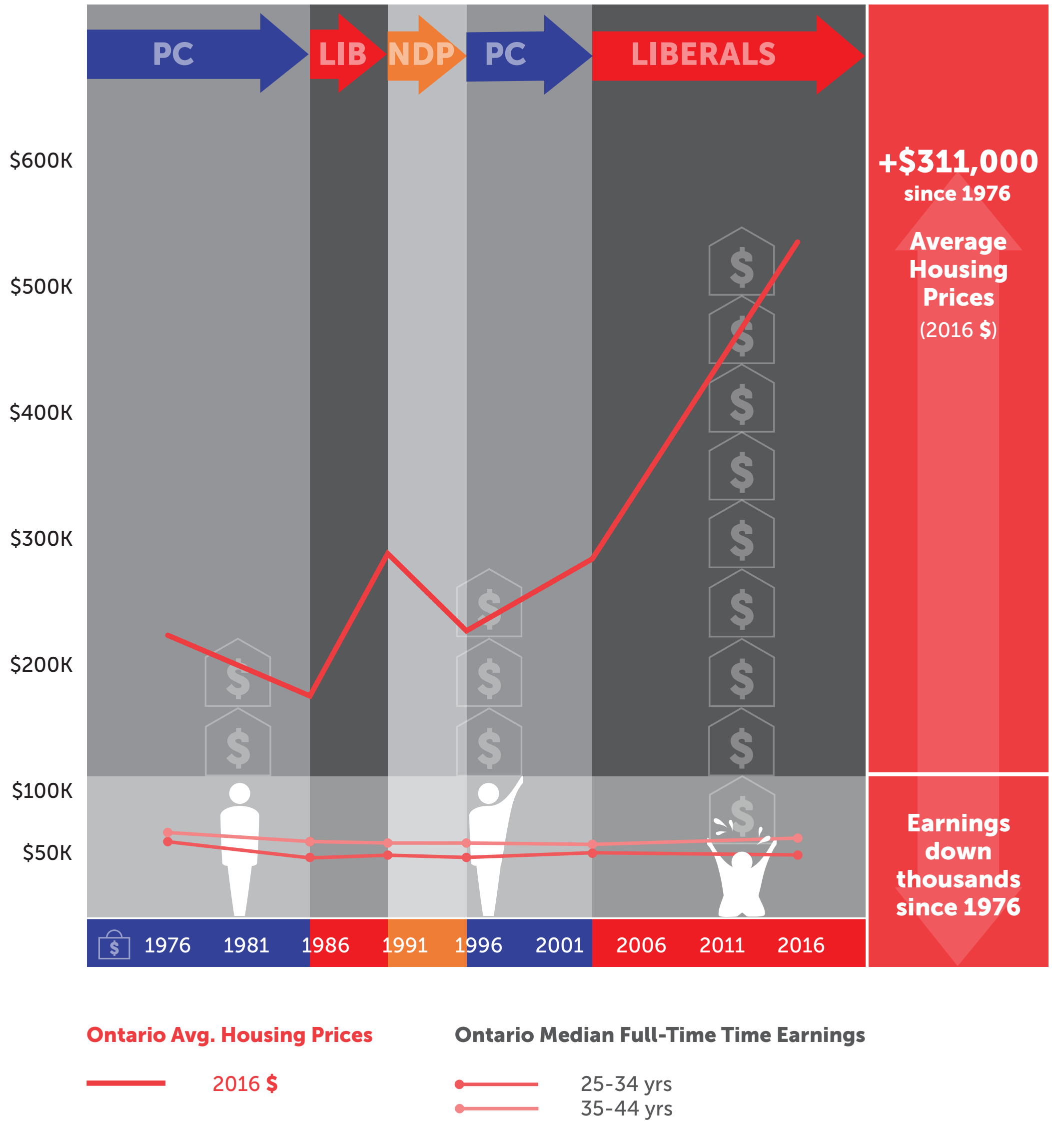
The reduction to earnings for young Ontarians coincided primarily with the Progressive Conservative government of Bill Davis prior to 1985. Earnings have fluctuated since then for young people. However, Table 3 shows that progress has stalled since 2003. *Since that year, Ontario is the only province to record a decline in full-time earnings for the typical 25–34 year old.*

Table 3. Typical Full-Time Earnings ($), Age 25–34

		Change in Typcal Full–Time Earnings, Age 25–34 (Annual, 2014 $)					
	2014	2010/14 minus 1976/80	since 2003	2003– 1995	1995–1990	1990–1985	1985–1976
			ON Liberals	ON PC	ON NDP	ON Liberals	ON PC
Canada	47,660	−4,020	+2,800	+500	−1,600	−200	−7,400
Newfoundland	50,620	+2,540	+15,400	−1,900	−800	−3,100	−1,800
Prince Edward Island	40,300	−40	+1,500	1,000	−300	−1,600	−5,100
Nova Scotia	44,580	−2,040	+5,200	+500	−400	−2,400	−3,400
New Brunswick	43,160	−3,620	+8,900	+200	−4,300	−2,000	−7,100
Quebec	44,040	−4,960	+3,300	+500	−3,000	−1,300	−3,800
Ontario	**47,960**	**−4,600**	**−2,700**	**+2,000**	**−1,200**	**+ 1,800**	**−10,600**
Manitoba	44,740	−3,380	+4,900	−3,500	−800	+1,200	−9,900
Saskatchewan	52,240	–	+9,600	+2,500	−2,400	−4,300	−10,200
Alberta	58,480	+2,320	+ 12,400	+5,300	−2,600	−4,100	−8,400
British Columbia	48,580	−8,440	+5,100	−3,400	−2,800	1,700	−6,900

Source: Author Calculations based on Statistics Canada, Income Statistics Division, Survey of Labour and Income Dynamics (1976 to 2011) and Canadian Income Survey (2012 to 2014), Custom table C796331 "Income of individuals, by sex, age group and income source, 2014 constant dollars, Canada, provinces, Full-Time, Full-Year Earners only."

Figure 4. How Earnings and Home Prices Change as Ontario Governments Change



Managing Housing Costs: Home prices rose more rapidly in Ontario than all other provinces except B.C.

The dramatic decline in earnings reported for young people in Ontario would not be so problematic if the primary cost of living—housing—also fell correspondingly in price. However, the exact opposite has been the case in Ontario since 1976–80. Table 4 shows that the average home price in Ontario (including condos, apartments, houses, etc.) is over $535,000—more than $140,000 higher than any other province except B.C. The escalation in home prices in Ontario has reached a #CodeRed status (Kershaw and Minh 2016).

Although the harm to young Ontarians' earnings coincided primarily with the Progressive Conservative government of Premier Davis before 1985, the harm to young peoples' home purchasing power has occurred predominantly under the watch of the Ontario Liberals starting with Premier McGuinty, and now accelerating under Premier Wynne. Since 2003, average home prices have increased around $250,000 in Ontario. That increase alone would have bought an entire average-priced home in Ontario as recently as the year 2000!

In many instances, young Ontarians are paying more to get less. The high home prices paid today by typical 25–34 year-olds more often purchase apartments or condos with balconies compared to a generation ago, as opposed to houses with yards.

In the three years since Premier Wynne took office in 2013, home prices in Ontario have increased $113,000—nearly as much as in British Columbia.

Table 4. Average Home Prices ($)

		Increase (in 2016 $)						
	2016	since 1976/80	since 2013	since 2003	2003–1995	1995–1990	1990–1985	1985–1976
			Premier Wynne	ON Liberals	ON PC	ON NDP	ON Liberals	ON PC
Canada	490,495	292,518	89,432	231,318	37,886	−11,632	69,021	−46,187
Newfoundland	257,589	106,266	−38,884	107,695	18,468	−13,994	11,620	133,800
Prince Edward Island	180,263	55,067	18,109	54,173	17,745	−5,301	5,610	7,774
Nova Scotia	220,737	61,227	−5,074	53,021	35,905	−7,039	−2,941	−31,078
New Brunswick	163,793	23,818	−6,542	31,368	9,120	−4,232	10,642	−34,282
Quebec	283,306	140,926	3,018	100,027	38,405	−20,487	27,973	n/a
Ontario	**535,931**	**334,585**	**113,019**	**251,505**	**56,641**	**−57,259**	**110,559**	**−49,858**
Manitoba	277,493	123,072	4,323	143,823	13,442	−10,933	5,056	−34,637
Saskatchewan	295,455	138,328	−6,369	164,146	22,739	−4,758	−12,385	−33,351
Alberta	394,576	146,446	−4,387	165,613	60,472	−9,770	23,387	−91,782
British Columbia	691,144	474,338	128,348	365,931	−485	67,160	78,994	−44,137

Source: Author Calculations based on Canadian Real Estate Association data.

The Housing Squeeze Index: Hard work pays off less for young adults in Ontario now than in the past

The standard of living for individuals is shaped largely by how much they can sell their labour power and how far they can stretch those earnings to cover the major cost of living. On these terms, the standard of living has deteriorated dramatically for younger Ontarians. It now has the second worst performing economy in Canada for younger generations. B.C. is the only province where data show that hard work pays off less for younger citizens than in Ontario.

We developed the Housing Squeeze Index to measure and monitor this #CodeRed deterioration over time. The Housing Squeeze Index measures how much work people must perform in order to afford the following housing related costs:

a. a 20 per cent down payment on an average-priced home (measured in years of full-time work);

b. the remaining annual mortgage (measured in months of full-time work); and

c. average rent on a three-bedroom apartment (measured in months of full-time work).

Over time, the data make clear that the growing gap between earnings and home costs is squeezing younger Canadians between time and money pressures.

Housing Squeeze Index: Years to save a 20 per cent down payment

Our analysis of the number of years of full-time work required now and in the past to save a 20 per cent down payment on an average home is informed by Rea et al. (2008) who show that the majority of middle quintile (i.e. middle-income) earners in Canada spend on average 15 per cent of their pre-tax income on shelter costs. Following Statistics Canada, they calculate that citizens reach the upper limits of housing affordability when they spend 30 per cent of their pre-tax income on shelter. Given these findings, our Housing Squeeze Index assumes that the typical person trying to buy into the housing market can save 15 per cent of their income for a down payment on top of whatever rent or other shelter payments they make.

This assumed rate of saving is more aggressive than the 10 per cent saving rate assumed by CityLab (2012) when making similar calculations for U.S. cities. Our index may therefore be critiqued for underestimating the amount of time required to save the down payment. In other words, the results of our Housing Squeeze Index would look even worse for Ontario (and all of Canada) if we were to follow the methodology in the U.S.

Table 5 shows that it now takes 15 years of full-time work for a typical young Ontarian (age 25-34) to save a 20 per cent down payment on an average-priced home. It didn't used to be so hard. When today's aging population were young adults (1976-80), it only took five years of full-time work to save the 20 per cent down payment on an average-priced home in Ontario and across Canada.

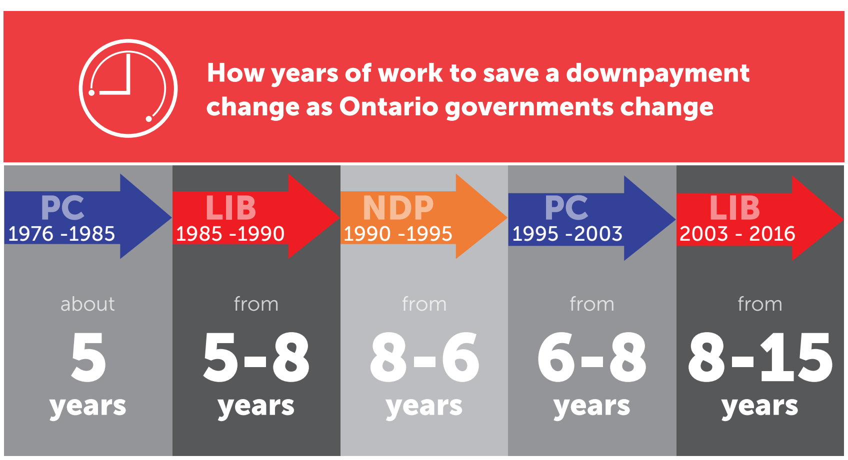
Now an entire decade of additional work is required to save the down payment in Ontario. That is a massive deterioration in terms of what hard work can achieve in this province. It begs the question: why are we pursuing an economic growth strategy that is compromising the standard of living so much for younger Canadians?

Table 5. Housing Squeeze Index, Years of Full-Time Work to Save 20% Down Payment

	Years of full-time work to save 20% down payment required in 2016	Additional years of full–time work required for young adult to save a 20% down payment						
		2012/16 minus 1976/80	since 2013	since 2003	2003–1995	1995–1990	1990–1985	1985–1976
			since Premier Wynne	ON Liberals	ON PC	ON NDP	ON Liberals	ON PC
Canada	13.4	6.8	2.5	5.8	1.0	–0.1	2.0	–0.5
Newfoundland	6.6	3.2	–1.0	1.4	0.9	–0.4	0.7	4.0
Prince Edward Island	5.8	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Nova Scotia	4.8	0.9	0.0	0.5	0.2	–0.1	0.6	–0.7
New Brunswick	6.6	2.3	–0.1	0.7	1.3	0.3	0.1	–0.2
Quebec	8.4	4.7	0.0	2.5	1.2	–0.3	1.0	n/a
Ontario	**14.5**	**7.6**	**2.8**	**6.9**	**1.2**	**–1.4**	**2.8**	**–0.2**
Manitoba	8.1	3.8	0.2	3.5	0.8	–0.3	0.0	–0.1
Saskatchewan	7.3	3.5	0.3	3.2	0.5	0.1	0.0	–0.1
Alberta	8.8	3.1	0.2	2.6	1.1	0.0	1.0	–1.5
British Columbia	18.5	11.4	4.1	8.8	0.7	2.3	1.9	–0.4

Source: Author Calculations based on (i) Statistics Canada, Income Statistics Division, Survey of Labour and Income Dynamics (1976 to 2011) and Canadian Income Survey (2012 to 2014), Custom Table C796331 "Income of individuals, by sex, age group and income source, 2014 constant dollars, Canada, provinces, Full-Time, Full-Year Earners only;" and (ii) Canadian Real Estate Association data.

Figure 5. How years of Work to Save Down Payment Change as Ontario Governments Change



While there is no denying the commitment that all premiers make in service of their province, Table 5 reveals that most of this deterioration has occurred since 2003. Younger Ontarians had to accept an extra three years of additional work to save for an average-priced home while the former Liberal government of Premier Peterson was in office before 1990. The time required to save then dropped by a year and a half between 1990 and 1995 during the NDP government; and then bounced back again by the same amount of time between 1995 and 2003, which coincided with the PC government of Premier Harris. Thereafter, the Housing Squeeze Index shows that provincial governments lost control of the economy for its youngest citizens. One interpretation of Table 5 is that seven years of hard work has been lost for younger Ontarians when measuring the work required to establish their own home since the Ontario Liberals took office in 2003. In fact, **for every year that Ms. Wynne has been Premier, the Ontario economy evolved so that young adults have fallen around a further year behind in terms of saving for a home**. This dramatic deterioration in the standard of living has not been caused by a provincial government. But it does reveal that the incumbent government must urgently adapt policy, and all opposition parties must plan election platforms for 2018 that will commit to stabilizing the relationship between home prices and young people's earnings.

Although the average figures for the province are shaped by housing markets in the Greater Toronto Area (GTA), we find evidence of the Squeeze throughout Ontario (See Table 6).

For example, between 1976–80, it took four years of full-time work to save an average-priced home in **Windsor**. Now it takes 6 years. That means younger citizens of this region lose much of the output from two years of hard work. Half of that has been lost since 2003.

In **Ottawa**, it used to take 5 years to save a 20 per cent down payment. Now, the typical aspiring home-owner must labour 9 years. Two of those extra years of work have been added since 2003.

It used to take 4 years to save the down payment in **London**. Now it takes 9 years. Young residents lost three of those years since 2003.

Five years was enough full-time work to save a 20 per cent down payment in **Kitchener** in 1976-80. Now the typical young adult will need to work 10 years. Young Ontarians lost three of those years of hard work since 2003.

In **Hamilton**, 4 years of full-time work would have saved a 20 per cent down payment in 1976-80. Now, the typical aspiring home-owner must labour 14 years. Eight of those extra years of work have been imposed since 2003.

And last, but definitely not least, there is **the Greater Toronto Area**. Back in the day (1976-80), the typical young adult only had to work full-time for six years to save the 20 per cent down payment. Now, the same aged young citizen must work 20 years if they are audacious enough to aspire for an average-priced home (which, as mentioned, is far less often a house than it used to be). At least 10 of those additional 14 years of work have been added since 2003.

Table 6. Housing Squeeze Index, Years of Full-Time Work to Save 20% Down Payment by Region

	Years of full-time work to save 20% down payment required in 2016	Additional years of full-time work required for young adult to save a 20% down payment						
		2012/16 minus 1976/80	since 2013	since 2003	2003–1995	1995–1990	1990–1985	1985–1976
			Premier Wynne	ON Liberals	ON PC	ON NDP	ON Liberals	ON PC
Canada	13.4	6.8	2.5	5.8	1.0	−0.1	2.0	−0.5
British Columbia	18.5	11.4	4.1	8.8	0.7	2.3	1.9	−0.4
Ontario	**14.5**	**7.6**	**2.8**	**6.9**	**1.2**	**−1.4**	**2.8**	**−0.2**
Greater Toronto Area	19.5	10.3	4.2	9.7	2.1	−2.7	4.4	−0.1
Ottawa	8.5	3.9	0.3	1.6	1.1	0.0	−0.1	0.6
Hamilton	14.1	8.0	1.8	7.7	0.3	−1.3	3.6	−1.1
Kitchener	9.5	3.6	1.0	2.8	1.2	−1.6	2.3	−0.3
London	8.5	3.8	0.9	3.2	−0.4	−0.4	2.3	−0.7
Windsor	6.0	1.4	0.9	1.6	0.0	−0.4	1.8	3.0

Source: Author Calculations based on (i) Statistics Canada, Income Statistics Division, Survey of Labour and Income Dynamics (1976 to 2011) and Canadian Income Survey (2012 to 2014), Custom Table C796331 "Income of individuals, by sex, age group and income source, 2014 constant dollars, Canada, provinces, Full-Time, Full-Year Earners only;" and (ii) Canadian Real Estate Association data.

Housing Squeeze Index: Months of full-time work to pay for annual mortgage on average-priced home

Saving a down payment is one factor in home-ownership. Managing mortgage payments is another. It is therefore important to know how many months per year people are working to pay for their mortgage.

To compare how this pressure has changed over time, we not only need to consider earnings relative to housing costs, but also interest rates. We worked with the mortgage calculator used by Vancity Credit Union to calculate total monthly payments (capital plus interest) for five-year, fixed-rate mortgages for average-priced homes less a 20 per cent down payment and amortized over 25 years. We compare the periods 1976-1980 to 2012–2016 for Canada, all provinces, and the six regions in Ontario identified above.

Statistics Canada data (CANSIM Table 176-0043 "Financial Market Statistics") show that average five-year term mortgage interest rates fluctuated from a low of 10.32 to a high of 13.26 per cent between 1976 and 1980, roughly triple the low of 3.76 and the high of 4.38 per cent during the five-year period ending in 2016. As a result, many might think that it is easier for young people to pay their annual mortgages today than in the past. Generally, this is not true. Despite much more favourable borrowing rates, Table 7 shows that today's higher home prices mean the typical 25–34 year old Canadian must still devote an extra month of their paid work each year to cover annual mortgage costs than did the same aged Canadian in 1976–1980. Young Canadians used to devote around five months of their work-year to mortgage costs. Now the typical younger Canadian must work six months to cover the mortgage on an average-priced home, on top of squeezing in over eight years more to save the down payment.

Even when interest rates rose to over 18 per cent in 1982—the year with the highest interest rates in Canada over the last four decades—the number of months the typical Canadian had to devote to pay the annual mortgage was no higher than it is today.

Table 7. Housing Squeeze Index, Months of Full-Time Work to Pay Annual Mortgage on Average-Priced Home

	Months of full-time work to pay annual mortgage on average-priced home (2016)	Change in months of full-time work to pay annual mortgage on average-priced home						
		2012/16 minus 1976/80	since 2013	since 2003	2003–1995	1995–1990	1990–1985	1985–1976
			Premier Wynne	ON Liberals	ON PC	ON NDP	ON Liberals	ON PC
Canada	5.9	+1.0	+0.9	+1.7	−1.0	−0.6	+1.6	−0.3
Newfoundland	2.9	−0.2	−0.6	0.0	−0.6	−0.7	+0.5	+3.7
Prince Edward Island	2.6	−0.9	0.0	0.0	0.0	0.0	0.0	0.0
Nova Scotia	2.1	−1.1	−0.1	−0.3	−0.8	−0.4	+0.4	−0.5
New Brunswick	2.9	−0.7	−0.2	−0.4	−0.4	−0.2	0.0	0.0
Quebec	3.7	+0.6	−0.2	+0.4	−0.5	−0.7	+0.8	n/a
Ontario	**6.4**	**+1.5**	**+1.0**	**+2.1**	**−0.6**	**−2.0**	**+2.4**	**0.0**
Manitoba	3.6	+0.1	−0.1	+1.0	−0.5	−0.5	−0.1	0.0
Saskatchewan	3.3	+0.1	0.0	+0.9	−0.6	−0.3	−0.1	0.0
Alberta	3.9	−0.9	−0.1	+0.4	−0.6	−0.4	+0.8	−1.1
British Columbia	8.2	+3.2	+1.6	+2.7	−1.8	+1.3	+1.6	−0.2

Source: Author Calculations based on (i) Statistics Canada, Income Statistics Division, Survey of Labour and Income Dynamics (1976 to 2011) and Canadian Income Survey (2012 to 2014), Custom Table C796331 "Income of individuals, by sex, age group and income source, 2014 constant dollars, Canada, provinces, Full-Time, Full-Year Earners only;" (ii) Canadian Real Estate Association data; (iii) Statistics Canada CANSIM Table 176-0043 "Financial Market Statistics;" and (iv) Vancity Credit Union mortgage calculator (available at: https://www.vancity.com/Mortgages/MortgageCalculators/).

In Ontario, where home prices have risen rapidly, Table 7 shows that the typical 25–34 year old would have to devote 6.5 months of their full-time work to cover the mortgage costs on an average-priced home. That is 1.5 months more work than was required in Ontario back in 1976–80. The need for young citizens to devote more work-time each year to cover the annual mortgage payment began in the period that the Liberal government of Premier Peterson held office. This pattern reversed itself while the Ontario NDP and Ontario PC parties governed. Thereafter, despite historically low interest rates, the work-time required to pay the mortgage on an average-priced home accelerated. Since 2003, Ontario's economy has imposed an additional two months of work on the typical young resident when it comes to paying for a mortgage on an average-priced home. Table 7 shows *one month of that extra work has been added in the three years since Premier Wynne became premier.*

The additional full-time work required to pay the annual mortgage on an average-priced home varies across the province (see Table 8). In the GTA and Hamilton, three months of extra work are required to pay the annual mortgage by comparison with when the Ontario Liberals took office in 2003. Younger residents of Kitchener and London must labour an extra two to four weeks, while the amount of work required has been stable since 2003 in Windsor and Ottawa.

Table 8. Housing Squeeze Index, Months of Full-Time Work to Pay Annual Mortgage on Average-Priced Home by Region

	Months of full-time work to pay annual mortgage on average-priced home (2016)	Change in months of full-time work to pay annual mortgage on average-priced home						
		2012/16 minus 1976/80	since 2013	since 2003	2003–1995	1995–1990	1990–1985	1985–1976
			Premier Wynne	ON Liberals	ON PC	ON NDP	ON Liberals	ON PC
Canada	5.9	+1.0	+0.9	+1.7	−1.0	−0.6	+1.6	−0.3
BC	8.2	+3.2	+1.6	+2.7	−1.8	+1.3	+1.6	−0.2
Ontario	**6.4**	**+1.5**	**+1.0**	**+2.1**	**−0.6**	**−2.0**	**+2.4**	**+0.0**
GTA	8.6	+2.3	+1.6	+3.1	−0.6	−3.1	+3.7	+0.1
Ottawa	3.7	−0.2	0.0	−0.1	−0.7	−0.5	−0.2	+0.7
Hamilton	6.2	+1.9	+0.6	+2.6	−1.3	−1.7	+3.1	−0.9
Kitchener	4.2	−0.3	+0.3	+0.4	−0.7	−1.9	+1.9	−0.1
London	3.8	+0.1	+0.3	+0.8	−1.6	−0.8	+2.0	−0.5
Windsor	2.6	−0.7	+0.3	+0.2	−1.1	−0.7	+1.5	+2.7

Source: Author Calculations based on (i) Statistics Canada, Income Statistics Division, Survey of Labour and Income Dynamics (1976 to 2011) and Canadian Income Survey (2012 to 2014), Custom Table C796331 "Income of individuals, by sex, age group and income source, 2014 constant dollars, Canada, provinces, Full-Time, Full-Year Earners only;" (ii) Canadian Real Estate Association data; (iii) Statistics Canada CANSIM Table 176-0043 "Financial Market Statistics;" and (iv) Vancity Credit Union mortgage calculator (available at: https://www.vancity.com/Mortgages/MortgageCalculators/).

Housing Squeeze Index: Months of full-time work to pay rent

Since Ontario's economy has weakened to the point that it now takes 15 years for the typical 25–34 year old to save a 20 per cent down payment on an average-priced home, and an extra month-and-a-half of work per year to cover mortgage costs, the reality is that home ownership has moved out of reach for many more Ontarians. Young citizens must increasingly come to terms with renting for longer periods of their lives, if not indefinitely. Accordingly, the third component of the Housing Squeeze Index examines how much work each year is required to pay the annual rent on a three-bedroom apartment. We choose this apartment size because it is suitable for families with multiple children.

The quality of data about the cost of renting in Canada is not as strong as the quality of data about the costs of home-ownership. For instance, Statistics Canada rental data reach back only to 1992, and they capture rents primarily for purpose-built rental buildings. The data generally miss the rents charged by smaller-scale landlords for condos, apartments, basement suites, etc. In addition, future data collection should prioritize metrics that quantify the stability of tenure in rental homes over time.

Working with these limitations, existing data show that the amount of full-time work required to pay rent each year has fluctuated over time. The work required to cover annual rent costs fell while the Ontario PC party was in power between 1995 and 2003. Thereafter, the amount of full-time work required each year to pay the annual rent on a three-bedroom home in Toronto, Hamilton, London, Kitchener and Windsor has increased by approximately one month. In Ottawa, the increase since 2003 has been more modest—at just 2 weeks of extra worktime.

Table 9. Housing Squeeze Index, Months of Full-Time Work to Pay for Rent

	Annual rent, 3 bedroom (2016 $)	# of months of full-time work to pay for rent in 2016	Change in months of full-time work required to pay annual rent			
			since 1992	since 2013	since 2003	2003–1995
				Premier Wynne	ON Liberals	ON PC
Hamilton	14,772	3.8	+0.6	0.0	+1.2	−0.6
Kitchener–Cambridge–Waterloo	16,224	3.6	+0.7	+0.6	+0.8	−0.2
Ottawa–Gatineau (Ontario part)	16,464	3.4	−0.1	+0.2	+0.4	−0.3
Toronto	18,300	4.4	+0.3	0.0	+0.9	−0.1
London	13,068	3.6	+0.1	+0.4	+1.0	−0.6
Windsor	12,816	3.1	−0.2	+0.4	+ 0.8	−0.3

Source: Author Calculations based on (i) Statistics Canada, Income Statistics Division, Survey of Labour and Income Dynamics (1976 to 2011) and Canadian Income Survey (2012 to 2014), Custom Table C796331 "Income of individuals, by sex, age group and income source, 2014 constant dollars, Canada, provinces, Full-Time, Full-Year Earners only;" and (ii) Statistics Canada CANSIM Table 027-0040 "Canada Mortgage and Housing Corporation, average rents for areas with a population of 10,000 and over."

In sum, the Housing Squeeze Index reveals that hard work no longer pays off for younger Canadians like it used to—with younger Ontarians squeezed between a vice-grip of time and money pressures that is unparalleled in Canada east of the Rockies. It takes many more years of full-time work to save a down payment, and over a month more work to pay the annual mortgage. For those for whom home ownership is out of reach, it also generally takes more work-time to pay annual rents.

The next elections in Ontario and across the country must increasingly wrestle with this reality, and provide detailed plans to change prospects for younger generations so that hard work once again pays off in ways that approximate how it used to when today's aging population was young.

Managing Public and Private Debts

At Generation Squeeze, we measure debt in three ways: public debt, conceived of as (i) environmental and (ii) government debt, along with (iii) personal debt.

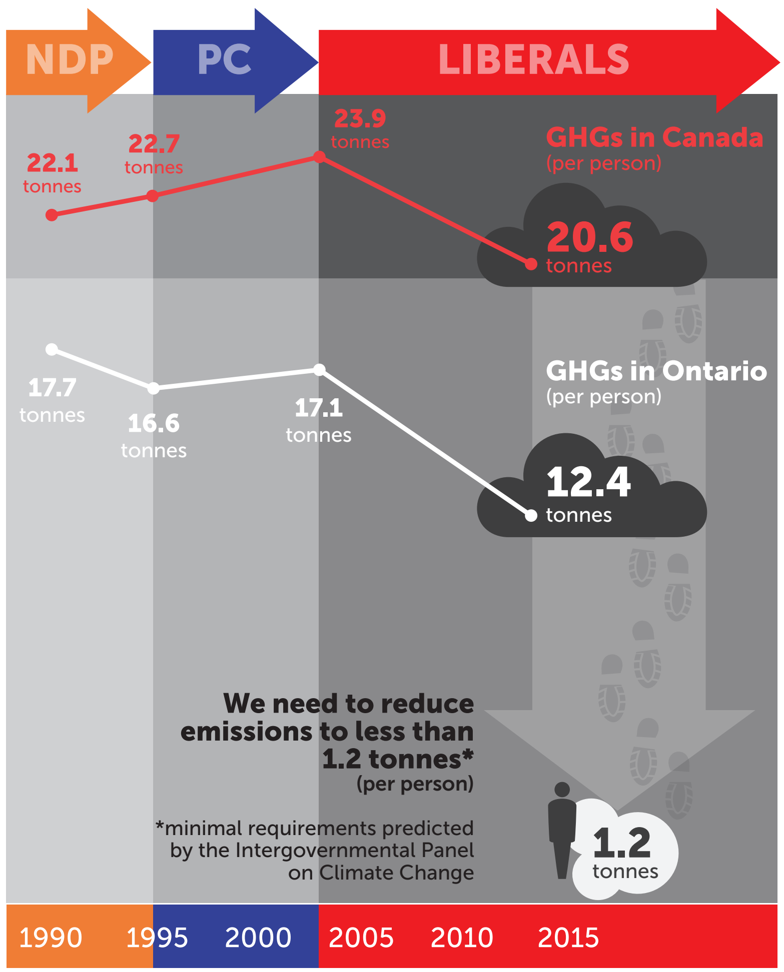
Public Debt: Environment

The Intergovernmental Panel on Climate Change (2001, p. 89) reports that greenhouse gas (GHG) emissions must be reduced well below 1.5 tonnes per person in order to avoid severe damage to the security of the climate for today's younger generations and their offspring. Table 10 shows that the average Canadian produces 21 tonnes of greenhouses gases—more than 13 times the level considered to be sustainable. This means the model of economic growth that is undermining the financial standard of living for younger Canadians is also compromising the climate, air, water and soil conditions on which younger Canadians depend.

Politicians often present Canadians with a choice between putting money in our wallets or protecting the environment. The time for this either/or debate is over, because the Housing Squeeze and GHG data make clear that current economic approaches are working out badly both financially and environmentally. This is true even in Alberta and Saskatchewan, for which the Housing Squeeze Index shows typical young adults need to work an extra three years to save the 20 per cent down payment on an average-priced home by comparison with when today's aging population was young. From the perspective of intergenerational fairness, the data leave no doubt that we must prioritize bold policy adaptations from coast to coast in order to recalibrate who benefits from the rewards of hard work. Presently, the data reveal that younger Canadians are getting a bad generational deal.

The carbon footprint of Ontarians is not quite as bad as the national average at 12.4 tonnes of GHG per person. Only Quebec and PEI report lower per capita GHG footprints.

Figure 6. How the Environmental Debt Changes as Governments Change



While there are no available provincial data about Greenhouse gas emissions per person before 1990, data show that Ontario has reduced its emissions more since that time than any other province. Most of that reduction has occurred since 2003 when the current Ontario Liberal government came to office.

Nevertheless, the carbon footprint in Ontario remains around 10 times higher than what the Intergovernmental Panel on Climate Change advises is the upper limit for sustainability in the coming decades—1.2 tonnes of greenhouse gas emissions per person. This leaves a large environmental debt with which younger residents of Ontario must cope as the risks anticipated from global temperatures rising more than 2 degrees Celsius loom ever closer.

Table 10. Greenhouse Gas Emissions (per person)

	GHG/person in 2014 (tonnes of CO_2 equivalent)	Change in Greenhouse Gases (GHG) per person (tonnes of CO_2 equivalent)			
		2014 minus 1990	since 2003	2003–1995	1995–1990
			ON Liberals	ON PC	ON NDP
Canada	20.6	−1.5	−3.3	+1.2	+0.6
Newfoundland	20.1	+3.5	−1.9	+7.1	−1.7
Prince Edward Island	12.3	−2.7	−3.2	+1.5	−1.0
Nova Scotia	17.6	−4.4	−6.5	+3.4	−1.3
New Brunswick	19.7	−2.4	−8.7	+4.9	+1.4
Quebec	10.1	−2.7	−2.4	+0.5	−0.8
Ontario	**12.4**	**−5.3**	**−4.6**	**+0.4**	**−1.1**
Manitoba	16.8	−0.1	−1.2	+0.3	+0.8
Saskatchewan	67.3	+22.6	−1.2	+8.7	+15.1
Alberta	66.7	−2.0	−8.1	−0.6	+6.6
British Columbia	13.5	−2.5	−2.2	−0.4	+0.1

Source: Author Calculations based on Environment and Climate Change Canada "Greenhouse Gas Emissions by Province and Territory" open data source: http://donnees.ec.gc.ca/data/substances/monitor/national-and-provincial-territorial-greenhouse-gas-emission-tables/C-Tables-IPCC-Sector-Provinces-Territories/EN-2016NIR-A11-Sector-IPCC-Prov-Terr-1990-2014.xlsx

Public Debt: Government

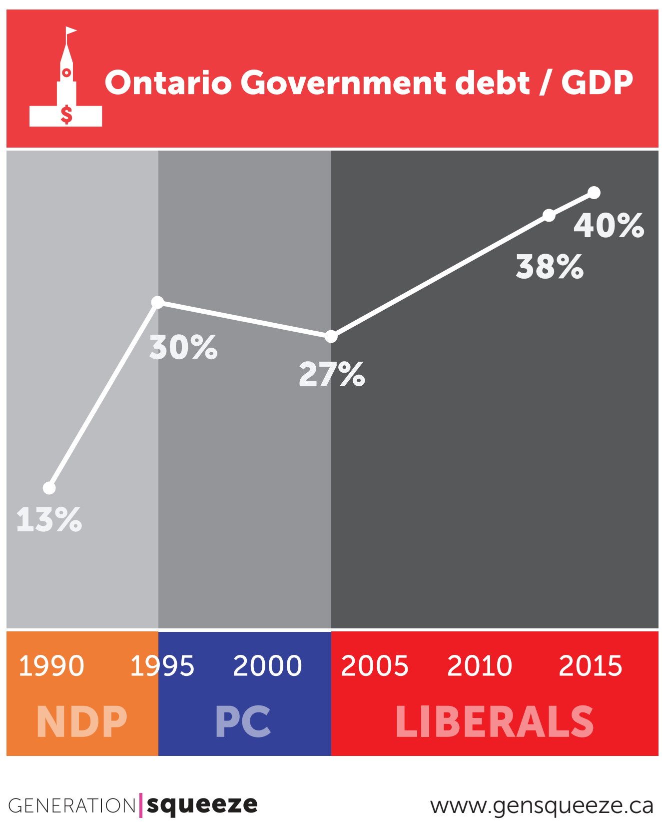
The Government of Canada's Fiscal Reference Tables (https://www.fin.gc.ca/pub/frt-trf/index-eng.asp) provide historical data about provincial government debts for the years 1990 to 2015. They are summarized below in Table 11.

It is interesting to observe that the two provinces which leave by far the largest environmental debts for younger generations, Saskatchewan and Alberta, are also the provinces that report the smallest government debts when measured as a share of the size of their provincial economies. (In fact, Alberta had net assets as of 2015 because of its Heritage Fund, although that has begun to change as a result of the forecasted deficits in its 2016 budget).

Our vision for provincial economies going forward must strive to wrestle with the environmental and government debts simultaneously. Reducing one, by increasing the other, is not a sustainable approach to managing either the economy, or paying for public services like medical care, old age security, child care, education or transit.

There are two standard ways to measure government debt: (i) as a proportion of the economy (i.e. per cent GDP); and the amount of debt per person. Representing 40 per cent of the provincial economy, the Ontario debt is considerably larger than the average 30 per cent debt/GDP ratio for all provinces together. There have been two periods of substantial growth in the Ontario debt relative to the size of the economy over the last 25 years. Debt increased by 17 per cent of the economy while the Ontario NDP governed for five years between 1990 and 1995. It has increased another 13 per cent of the economy in the dozen years that the Ontario Liberals have been in office since 2003. While the PC government led by Premier Harris was in office for the intervening eight years, the provincial debt decreased by 3 per cent of Ontario's gross domestic product.

Figure 7. Ontario Government Debt/GDP Ratio



When the amount of debt is measured per person, the provincial debt increased during all three governments for which we have data since 1990. It increased $7,500 per person while the Ontario NDP were in office for five years; $500 per person while the Ontario PC were in office for 8 years; and over $8,000 per person during the dozen years that the Ontario Liberals have governed. Presently, the provincial debt in Ontario is over $22,000 per person.

Table 11. Provincial Government Debt

	Net Government Debt/GDP ratio (%)					Public Government Debt Per Person (2016)				
	2015	2013	2003	1995	1990					
Canada	30.3	28.3	24.6	27.4	15.7	17,026	15,979	12,167	11,364	6,456
Newfoundland	42.0	26.4	62.4	65.6	38.2	24,273	18,039	27,717	18,425	10,085
Prince Edward Island	35.3	36.5	34.5	36.9	10.0	15,115	15,141	11,966	10,769	2,755
Nova Scotia	37.5	38.2	41.4	44.9	26.9	16,256	16,384	16,443	14,067	8,524
New Brunswick	41.3	39.0	30.6	34.4	23.5	18,395	17,201	11,797	11,436	7,171
Quebec	49.1	50.3	37.4	34.0	24.1	23,010	23,531	16,215	12,531	8,805
Ontario	**40.0**	**38.4**	**27.2**	**30.2**	**13.4**	**22,473**	**20,641**	**14,183**	**13,656**	**6,124**
Manitoba	32.5	27.7	28.7	24.8	19.3	16,799	14,292	11,883	8,911	7,083
Saskatchewan	9.9	5.6	24.8	37.2	21.3	7,087	4,374	11,698	14,325	7,495
Alberta	−1.2	−3.8	−6.1	12.4	7.6	−943	−3,415	−4,146	6,231	3,665
British Columbia	15.9	16.9	19.9	11.3	10.9	8,579	8,835	9,036	4,727	3,145

Source: Author Calculations based on (i) Department of Finance Canada "Fiscal Reference Tables" available at: https://www.fin.gc.ca/pub/frt-trf/index-eng.asp; (ii) Statistics Canada CANSIM Table 384-0038 "Gross domestic product, expenditure-based, provincial and territorial, annually (Dollars unless specified);" and (iii) Statistics Canada CANSIM Table 051-0001 "Estimates of population, by age group and sex for July 1, Canada, provinces and territories, annual (persons)."

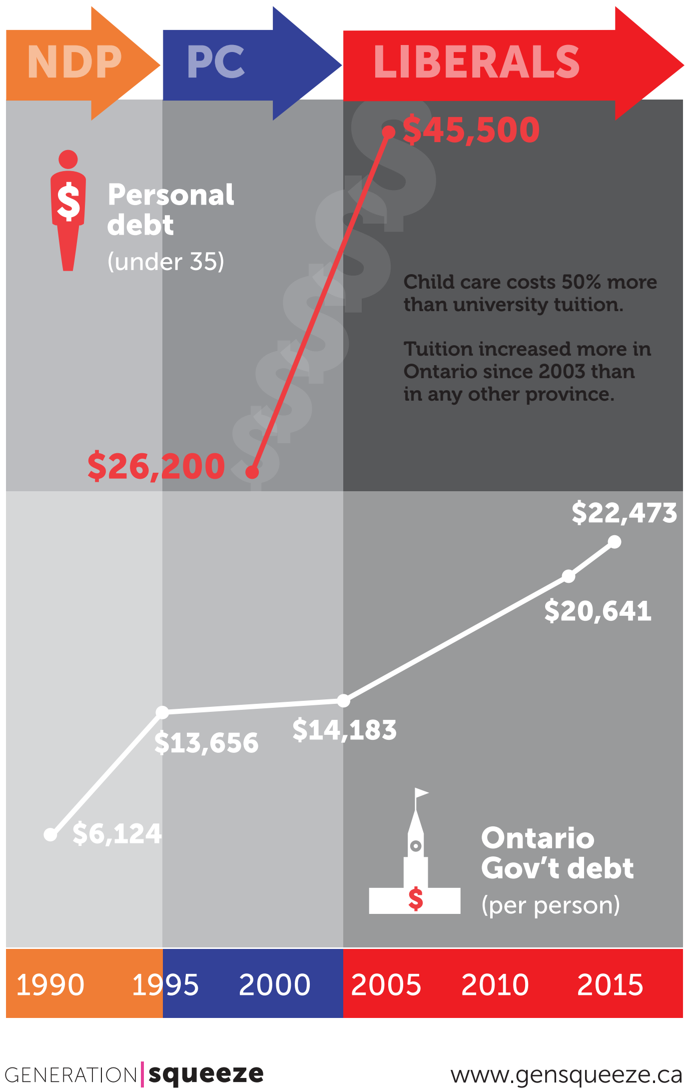
Personal Debt & Wealth

Canada does not collect good data about personal debt and wealth. There are insufficient data to enable comparisons between provinces. For Ontario, existing data generally permit analysis of changes in wealth and personal debt only in 1999, 2005 and 2012, which coincides primarily with the terms in office of the Ontario PCs and the Ontario Liberals. Unfortunately, Statistics Canada has missing data in 2012 for those under age 35. Table 12 summarizes the findings.

While the previous section shows that public government debt levels per person only rose slightly while the Ontario PCs were in office under Premier Mike Harris, the data available for personal debt tells a different story. Between 1999 and 2005, personal debt increased by nearly $20,000 for Ontarians under age 35, while their net worth fell by $4,000. The typical person in this age group is not yet in the housing market, so the additional debt is generally incurred from other costs—for example post secondary debt, paying rent, child care costs, etc.

For those age 35–44, for which we have data up to 2012, their total debt increased by $50,000, while their net wealth grew by just 35,000. In other words, for every dollar of net wealth gained by a young person in this age group by comparison with the same aged person in 1999, they had to take on $1.41 in debt.

Figure 8. Swapping Public for Personal Debt as Governments Change



Over the same period, Ontario's economy has been making older age cohorts more wealthy *without taking on as much debt*. For example, the typical person age 65+ has accumulated more than $200,000 in net wealth by comparison with the same aged person in 1999. They accrued these wealth gains while adding just $17,000 in additional debt. In other words, for every dollar gained, typical Ontarians age 65+ added 8 cents in debt. The Ontario economy is clearly working more favourably for older cohorts than younger citizens.

It's worth noting, however, that the data suggest wealth accumulation for those age 55 to 64 was slower in Ontario by comparison with the national average between 1999 and 2012. The rapid increase in home prices in Ontario by comparison with the rest of the country since 2012 is likely to have changed this trend. Certainly, the data in B.C. show that the escalation in home prices disproportionately benefits wealth accumulation (with little additional debt) for those age 55 and older relative to other age groups (Kershaw 2017).

Table 12. Change in Median Debt and Wealth ($), by Age: 2012 minus 1999

Age	Total Net Wealth in 2012	Increase in Net Wealth	Increase in Total Debt	Amount of Extra Debt ($) for every Additional $ of Net Wealth
Ontario				
Under 35* (data as of 2005)	32,100	−4,000	19,300	−4.83
35–44	165,100	35,300	49,600	1.41
45–54	430,800	178,500	50,200	0.28
55–64	514,700	42,000	24,600	0.59
65+	549,700	203,300	16,900	0.08
Canada				
Under 35	25,300	2,000	14,900	7.45
35–44	182,500	57,700	79,600	1.38
45–54	378,300	134,200	37,400	0.28
55–64	533,600	179,400	23,100	0.13
65+	460,700	190,000	9,500	0.05

Source: Author Calculations based on CANSIM Table 205-0002 "Survey of Financial Security (SFS), composition of assets (including Employer Pension Plans valued on a termination basis) and debts held by all family units, by age group, Canada and provinces, occasional (2012 constant dollars)"

Managing major costs beyond housing

An older demographic in Ontario and across Canada is able to accrue more wealth than in the past in part because governments have made public policy decisions to reduce the medical care costs that people pay privately out of pocket, while supplementing income through the Old Age Security system, which includes a Guaranteed Income Supplement. These are key policy decisions that drive how provincial and federal governments combine each year to spend over $33,000 per person age 65-plus on important programs that provide our parents and grandparents with health and financial security in their retirement years—security that we must protect (Kershaw and Anderson 2016).

By contrast, provincial and federal governments combine to spend less than $12,000 annually per person under age 45 (Kershaw and Anderson 2016). This includes government spending on health care, grade school, postsecondary, child care, parental leave, employment insurance, housing, workers' compensation and saving for retirement. One result of the uneven age distribution in social spending is that the younger demographic has had to shoulder privately many costs that are increasingly necessary to cope with the deteriorating economy, such as postsecondary tuition and child care. More younger Canadians are getting extra education to improve their job prospects, and devoting more time to the labour market when they have young children at home to compensate for lower earnings and higher home costs.

Tuition Costs

Table 13 reports the cost of undergrad tuition in 2016 and its change over time since 1976. Ontario has the highest undergraduate tuition levels of any province in the country. From coast to coast, annual tuition costs have increased around $4,000 since 1976, after adjusting for inflation. In Ontario, they have increased by more than $5,600. The increase in Ontario tuition has been steady since 1990. After inflation, tuition rose $1,000 over the five years the Ontario NDP were in office. They increased $2,300 during the eight years the Ontario PCs government between 1995 and 2003. Thereafter, they increased by $2,100 over the 13 years that the Ontario Liberals have most recently governed. No province increased tuition more than Ontario since 2003.

Table 13. University Tuition ($)

	Undergraduate tuition in 2016	Change in undergraduate tuition						
		since 1976	since 2013	since 2003	2003–1995	1995–1990	1990–1985	1985–1976
			Premier Wynne	ON Liberals	ON PC	ON NDP	ON Liberals	ON PC
Canada	6,373	+4,041	+334	+1,400	+1,473	+1,098	+321	−252
Newfoundland	2,759	+691	+4	−501	−134	+1,190	+151	−14
Prince Edward Island	6,288	n/a	+331	+1,119	+991	+1,104	+275	n/a
Nova Scotia	7,218	+4,266	+709	+268	+2,181	+1,586	+151	+81
New Brunswick	6,682	+ 3,692	+281	+1,106	+1,856	+562	+351	−183
Quebec	2,851	+738	+69	+518	−167	+1,017	+456	−1,086
Ontario	**8,114**	**+5,625**	**+514**	**+2,099**	**+2,318**	**+941**	**+235**	**+32**
Manitoba	4,058	+2,143	+89	+111	+247	+1,219	+484	+82
Saskatchewan	7,177	+4,973	+473	+1,366	+1,876	+1,400	+366	−36
Alberta	5,750	+3,604	−193	+106	+1,616	+1,919	+303	−340
British Columbia	5,534	+3,706	+279	+425	+1,346	+797	+45	+1,093

Source: Author Calculations based on (i) Statistics Canada CANSIM Table 477-0077 "Canadian and International tuition fees by level of study;" and Statistics Canada Table 8E.1a: "Weighted average tuition fees for full-time Canadian Undergraduate students by province and Canada total, in current dollars." Data from the Tuition and Living Accommodation Costs for Full-time Students at Canadian Degree-granting Institutions (TLAC) Survey." Table provided by Derek.Adams@statcan.gc.ca September 12, 2012.

The Ontario Liberal government recently reorganized provincial funding for postsecondary with the intention to minimize tuition costs for families with low- and middle-incomes. This policy change is welcome news, and represents the government spending existing dollars in smarter ways. As the full impact of this policy change unfolds in the years ahead, it remains worthwhile to question why Ontario allowed tuition levels to rise faster than other provinces.

Child Care Fees

Canada is very weak at collecting data about child care services, in part because we have not yet built a child care system in the way that most other industrialized countries have. Data about child care fees across the provinces are a patchwork, and inter-provincial comparisons are not possible when analyzing trends over decades. In Ontario, data are available for 2012 and 1998, which blend together years in which Premiers Harris and McGuinty served in office.

After adjusting for inflation, average Ontario fees in 1998 for toddlers (age 18 to 30 months) were $849 per month, or $10,192 annually (Friendly et al. 2005, p. 76). As of 2012, those fees reached nearly $1,000 a month, or $11,729 annually (Friendly et al. 2015, p. 53). At these rates, child care fees still cost approximately 50 per cent more than undergraduate tuition in Ontario.

Nevertheless, the Ontario Liberal government deserves considerable credit for introducing full-day kindergarten for four and five-year-olds. This important policy change began in 2010, and its implementation was continued by Premier Wynne upon her taking office. Studies by professors at McMaster and Queens universities find that this policy change has helped to reduce early childhood vulnerability in the province (Government of Ontario 2013). This evidence points to the value of investing further in quality child care services that are available at the end of parental leave in order to amplify the best starts in life for the next generations.

Managing Opportunity for the Next Generations

The previous sections reveal that Ontario's economy is failing younger adults by comparison with the past, because hard work now yields lower earnings, and is by accompanied higher home costs, more expensive child care and postsecondary, and a deteriorating environment. When our economy squeezes citizens in their prime child bearing and rearing years for time, money, services and environmentally, there are intergenerational consequences. When parents are squeezed by our economy, our province's youngest children are also squeezed, compromising early development opportunities and adding stress to their environments.

For example, 24 per cent of Ontario children are vulnerable when they start the formal school system at age five. Evidence shows there is no reason for any province to report rates of early vulnerability above 10 per cent (Kershaw, Anderson et al. 2009, Kershaw, Warburton et al. 2010).

24 per cent of children starting kindergarten represents around 35,000 Ontario kids. Research shows that early vulnerability matters, because human beings are especially sensitive to our environments well before we get to school when our genes, brains and immune systems adapt in response to our earliest experiences. Vulnerability that shows up in kindergarten means children are more likely to fail, go to jail or wind up sick as adults (Kershaw, Warburton et al. 2010). Evidence suggests that more than 20,000 of these cases of early vulnerability each year could be avoided if governments were to adapt policy in ways that ease the time, money, service and environmental squeeze on the generations raising young children. Over the tenure of provincial governments, this adds up to hundreds of thousands of children whose opportunities are impaired by policy decisions that fail to adapt to the #CodeRed decline in the standard of living for younger Ontarians.

Ontario is the second worst performing economy in Canada for younger generations

The previous sections reveal that Ontario is now the worst performing economy for younger Canadians of any province in the country, with the exception of British Columbia.

- ✖ Full-time earnings have are down $4,600 by comparison with when today's aging population was young, and Ontario is the only province in Canada to report a decline in full-time earnings for the typical 25–34 year old since 2003.
- ✖ Home prices have increased in Ontario more than any other province, except B.C.
- ✖ As a result, hard work pays off less for young citizens in Ontario than in any province east of the Rockies.
- ✖ Personal debt has risen by at least $19,000 since 1999 for the typical person under age 35, and nearly $50,000 for the typical 35–44 year old with no, to modest, gains in net wealth.
- ✖ The increase in personal debt doesn't just reflect home costs. It also reflects uncontained costs for postsecondary, child care, etc. Postsecondary tuition has increased more in Ontario since 2003 than any other province, and child care fees for toddlers are nearly 50 per cent higher than undergraduate university tuition.
- ✖ The environmental debt in Ontario remains unsustainable. While not as large as the national average, and considerably smaller than in Alberta or Saskatchewan, per person emissions of Greenhouse gases in Ontario are ten times higher than the sustainable limits identified by the Intergovernmental Panel on Climate Change.
- ✖ Provincial government debt per person in Ontario is now over $22,000 per person. That is the second highest per capita debt level in the country, which is primarily left to younger citizens to pay in the future.
- ✖ When we squeeze young adults for time, money, services and environmentally, we cannot help but squeeze the children they are raising. Data show that 35,000 children enter the formal school system in Ontario each year vulnerable in ways that mean they are more likely to fail, go to jail and wind up sick as adults. Evidence suggests more than 20,000 of these cases could be avoided each year if governments were to adapt policy in ways that ease the time, money, service and environmental squeeze on the generations raising young children.

If, and when, decision makers point with pride to Ontario's relatively high rates of economic growth by comparison with other provinces in the current context, it will be important for all Ontarians to ask the question: What kind of growth are we achieving? Growth that dramatically deteriorates the standard of living for Ontarians in our 20s, 30s and 40s, along with our children, is not good growth.

Ontario Can Do Better

The economy does not need to perform so poorly for younger generations. There are policy adaptations available to mitigate the problems, and Ontario can learn from the pros and cons of changes trialed recently in British Columbia. In the final part of this study, we summarize evidence-based policy principles that would recalibrate the economy to promote solutions. The year before an election is a particularly good time to talk about these solutions, and to insist that all political parties—on the right, centre and left of the political spectrum—prioritize adapting for younger citizens in pursuit of a vision of Ontario and Canada that will work for all generations. Accordingly, Generation Squeeze encourages all political parties to adapt the following principles in their election platforms.

1

Monitor and Report the Age Distribution of Social Spending in Annual Government Budgets

Given that the economy is performing particularly poorly for younger generations, it is important for governments to monitor and report how their investment of public funds breaks down by age so that decision-makers and citizens can evaluate the efficiency and fairness of government spending and revenue collection between generations.

Generation Squeeze can help governments with this monitoring. We have developed and published a methodology to perform this task annually (Kershaw & Anderson, 2016). Currently governments combine to spend $33k–$40k per person age 65+ compared to less than $12k per person under age 45. Generation Squeeze asks all political parties to state their plans to narrow the age gap by (i) reporting the age gap in spending in their annual budgets; and (ii) investing further in younger generations. Our research shows that we can achieve many of the goals below by adding $1,000 per citizen under age 45—raising annual spending from $12k to $13k—while protecting spending on our aging parents and grandparents.

2

Homes First.

The cost of making a home, either as an owner or renter, drives Ontario's status as one of Canada's two worst economic performers for younger generations. Setting our economy back on track requires that we focus on the unaffordability problems created by home prices. The principles for housing policy reform presented below have been shaped by consultations with experts throughout the housing ecosystem representing developers, realtors, landlords, non-profit housing organizations, city planners, municipal mayors, academics, renters, home-owners and others. Much of this consultation took place at the "Building Housing Common Ground" event hosted by Generation Squeeze on October 25, 2016. The common ground principles produced at that event can be found at: http://bit.ly/CodeRedBHCG.

The highest-level principle for housing policy reform recommended by Generation Squeeze is "Homes First." It reminds us that Canada's housing market is primarily a mechanism to provide an efficient supply of suitable homes at prices that are in reach for what typical residents earn. It is only secondarily a mechanism to provide returns for investors. Whether they reside here or abroad, people who purchase homes for purposes other than, or in addition to, living in them or renting them out contribute to market forces that are driving home prices beyond reach for a large, and growing, proportion of younger Canadians or other people entering our housing market for the first-time (e.g. newcomers). In response, we should aim to protect, and in some regions restore, the link between what typical people can earn in the local labour market and the cost of making a home as an owner or renter.

A commitment to Homes First implies that we should design policies that channel foreign and domestic investment into more beneficial types of housing supply, including more purpose-built rental, diverse multifamily housing, and innovative tenure and equity models. Private investment should be discouraged from single-detached houses, small condominiums, etc. that often result in increasing the average purchase price, reducing the available stock and/or generating less secure rental supply for locals. Such channelling would turn a current source of the problem into a source for the solution.

The Homes First principle also anticipates that we all have a personal responsibility to adapt to changing housing markets. For some, this will require adjusting our savings and spending patterns, our expectations regarding home size, access to ground/yards and distance from work or school. For others, it may require adapting expectations regarding the evolution of our neighbourhood character, or the personal equity gains derived from the housing market.

The next seven principles flow from a commitment to Homes First.

3

Encourage Density, Diversity and Efficiency to increase the supply of suitable homes

Given that supply constraints contribute importantly to rising home prices, land use should be revisited, especially in communities where home prices have rapidly left wages behind. This principle has several implications, including:

a. In keeping with proposed changes to the Ontario growth plan, we should prioritize increasing housing stock in zones already reserved for residential homes because there are good economic, food security, health and environmental reasons to protect agricultural, greenspace and industrial lands.

b. We should revisit zoning for single detached homes in housing hot spots like the Greater Toronto Area and Metro Vancouver, etc. There are entire cities in Canada where single detached homes are beyond the financial reach of the vast majority of adults in their 20s, 30s and 40s trying to enter the housing market. Where this kind of housing is no longer viable for younger generations, it is time to revise the zoning policy that prescribes single detached homes for some neighbourhoods.

This policy change is likely to invoke NIMBY (Not In My Back Yard) reactions from homeowners who want to preserve the single detached home neighbourhoods into which many of them bought over a decade ago. There are two factors that can help to mitigate such reactions. First, many of those homeowners will desire that their children and grandchildren can also live in their community as adults. Unless we increase housing supply dramatically, this option is off the table for large segments of young people in big Canadian cities today, let alone future generations. Second, many people in the GTA and Metro Vancouver who live in neighbourhoods zoned for single-detached homes are already witnessing dramatic changes as modest-sized homes with yards are replaced with very large single detached homes that fill entire properties and accelerate growth in the average cost of housing. Since many neighbourhoods with single detached zoning are already building differently than in the past, it would be far more sustainable to have this rebuilding result in the replacement of single homes with multiple units that fill the yard at manageable costs per unit.

c. Consultations about re-zoning to encourage densification should include, and balance, the interests of current residents with the interests of others who would like to live in those neighbourhoods as new supply becomes available.

d. We should prioritize densification plans which build a diversity of housing types that are suitable for residents from a wide range of economic levels, backgrounds, ages, and specific needs, including the needs of families with children.

e. We should plan and prioritize densification in conjunction with the design of public transit routes and other public spaces. Senior levels of government should require or incentivize such densification as a condition for provincial and federal infrastructure investments.

f. We should acknowledge the vital role that developers can play in increasing the supply of suitable homes, and support their work with efficient and predictable processes regarding development cost charges, community amenity contributions and other forms of taxation that balance the need for companies to earn reasonable profits with the need for all levels of government to levy reasonable fees to contribute to public coffers.

4

Level the Playing Field between Renters and Owners

Given the growing gap between real estate prices and incomes, we should anticipate that renting will become an increasingly common way for Canadians to make homes throughout their lives. Thus, we need to level the playing field—financially and socially—between renters and owners, and make long-term renting more stable and secure. This principle has several implications, including:

a. Policy subsidies for renters should be in proportion to subsidies for homeowners, and public funds should be used increasingly to incentivize the construction of purpose-built rental homes.

b. Policy adjustments may be required to increase security of tenancy (for example, so that renters can have reasonable expectations that their children can remain in the same child care or school setting for years at a time) while balancing the needs for reasonable flexibility on the part of landlords. Adjustments should include closing loopholes that permit limitless increases to rents on an annual basis for many rental homes built after 1991.
c. There is need to challenge attitudes that treat renters as less desirable community members than homeowners.
d. Alternative long-term savings & wealth accumulation strategies will be required for renters. We should defend against risks that renters are less likely than home-owners to build equity on which they can draw in retirement.

5 Innovate with New Tenure and Equity Models to achieve more below-market housing

While we all have personal responsibility to adapt, no one in Canada should be unable to access a minimum standard of shelter. Governments are proposing new investments in below-market housing; and these commitments are important, especially at the federal level, because previous governments reduced Ottawa's role in social housing.

Despite the substantial sounding dollar values, new social housing investments are expected to produce relatively few homes by comparison with the size of the population—often increasing the housing stock by less than 1 per cent. For example, the B.C. government announced $855 million in new spending in 2016 to support housing affordability. While the government estimates this investment will help up to 4,900 families (Government of British Columbia 2017, p. 56), 4,900 homes represents only one-quarter of one-per-cent of the housing stock in B.C. Clearly, this will not be enough to fix a housing market that is broken for younger citizens who number in the *hundreds of thousands.*

Simultaneously, the federal government has committed an average of one billion dollars annually over the next 11 years for the National Housing strategy (Government of Canada 2017a). While this investment will build thousands of units, that number is still modest by comparison with the millions of younger Canadians who are squeezed between lower earnings and higher home prices by comparison with the past.

Put bluntly, the scale of public investments that are under consideration—despite being larger than Canadians have seen in recent decades—will leave the majority of younger Canadians struggling to access a housing market that has priced this commodity at more than double the value it was when today's aging population was starting out as young adults. Addressing this housing squeeze requires policy adaptations that search for broader population level opportunities to reduce costs for the vast majority of young people so that they are better positioned to deal with the new norm of higher housing prices.

In search of such opportunities, we should scale up practices that move beyond traditional renting and ownership options by promoting access to shared equity models of home-ownership, and innovative use of public lands that separate buying/renting buildings from land that remains held in public trust. In addition, we will need to think about taxing housing wealth differently to slow down the escalation of home prices (see next policy principle).

6

Revise Tax Policy to slow down the escalation of home prices and raise revenue fairly for medical care and other social policy

Given that home prices reflect the interaction of supply and demand, and that the benefits and harms of higher home prices have not been evenly distributed across generations, we should revise tax policy to achieve more fairness. This principle has many implications, including:

a. *Municipal, provincial and/or federal tax policy should discourage demand for housing among foreign and domestic investors when it does not increase the supply of purpose-built rental or below-market housing units.*

- Surtaxes on foreign buyers are one option now being trialed by the B.C. government in the Metro Vancouver region. A version of this tax could be extended to Ontario and other parts of Canada.
- Empty Homes taxes are an option now being experimented with by the municipal government in the City of Vancouver. Other municipalities, including in the GTA and Hamilton, would be well-served by adopting a similar tax.
- Federal and provincial governments should also consider taxing the capital gains that result from the sale of homes purchased within 24 months. This sort of "speculation tax" could be administered with tax rates that decline over time. For instance, if flipped within six months, the entire capital gain could be subject to tax. The percentage of capital gains subject to taxation thereafter could decline as the time of resale moves closer to 24 months from the date of purchase. The speculation tax should be designed to capture what is called shadow flipping—a practice that involves real estate brokers using an obscure "assignment clause" in sales contracts so that a property changes hands multiple times with increasing prices before formally closing a deal.

Currently, principal residences receive very favourable tax treatment, because they are not subject to any capital gains taxation. The federal government's tax expenditure budget shows that this tax policy costs Ottawa $6.8 billion in 2017 (Government of Canada 2017b), and provincial coffers forgo revenue simultaneously. This tax policy differs from many countries, including the United States where governments tax the gains on sales of owner-occupied homes above $250,000 per owner. Since administering the collection of such taxes raises measurement difficulties when property value changes are assessed over the medium or long term, we would not recommend a broad-based policy change to tax capital gains from the sale of principal residences. Instead, we propose in 6b a shift toward annual taxation of housing wealth, facilitated by a corresponding partial shift in 6d to reduce income taxes owed.

b. *Municipal, provincial and/or federal tax policy should collect revenue in ways that fairly measure residents' ability to pay for health care and other public services in light of both income and wealth, including housing wealth.*

There is good reason to leave open the possibility that many who have prospered from the rapid increase in Canadian home values should contribute more in taxation than they do currently in recognition that their ability to pay is correspondingly greater. For example, consider two people who earn 45,000 annually. One is a young renter. The other has been in the housing market for decades and now owns outright a home worth over $700,000. For the purpose of measuring their ability to pay for medical care and other social services, provincial and federal income taxes treat these two people identically—but they aren't identical. Now is the time for us to distinguish better between their important differences.

Canada's housing market, especially in hot zones like the Greater Toronto Area, Hamilton, Metro Vancouver, and around Victoria, has transformed regular people who came of age as adults in the 1970s and 80s into the global one per cent—even as retirees! Credit Suisse reports that $760,000 US in wealth (one million Canadian dollars) puts someone in the top one per cent of wealth holders globally (Kersley and Stierli 2015, p. 11). With housing prices more than doubling in Canada after inflation since 1976, and home values over $1 million becoming common in major Canadian centres, many Canadians who earned incomes in regular jobs now reside in homes that make them the elite from a global perspective. We should update the way we measure people's ability to pay to recognize this new reality.

We could begin by applying housing wealth (aka property) taxes at progressive rates with higher rates applied to higher-valued homes. This approach would require setting a threshold above which surtaxes are proposed. Those who own homes that receive annual valuations which fall below the threshold would be unaffected by the surtaxes. We recommend the median price in a region as the threshold, with progressively higher rates of housing wealth taxation imposed above the median.

By adding progressive taxes on properties priced above the regional median, governments would use taxation to create a modest cooling mechanism at the top end of the housing market. The revenue could be used to invest in social policies that improve housing affordability and/or reduce other major costs that young adults face when starting their homes, careers and families (see principle 9).

The implementation of this reform would require provisions that continue to permit citizens with high-value homes but low-annual-incomes to defer the annual property taxation until the sale of the home.

Our preference for progressive property wealth tax rates also leaves open the option to reduce rates below the median value in a region. By doing the latter, governments would help make housing more affordable for new entrants into the market, and possibly incentivize developers to build housing stock that will be priced accordingly.

Factoring housing wealth into our measurement of people's ability to pay for public programs and services is all the more important given Piketty's (2014) observations about factors driving inequality in the 21st century. In developed countries experiencing markedly lower growth rates than in the decades immediately following World War II, the returns to capital investments generally increase at higher rates than do the returns people earn from work (aka labour investments). Residential property ownership is a particularly common form of capital for which we are witnessing high rates of return just as Piketty describes. With capital expected to generate larger economic returns than labour so long as economic growth remains at rates witnessed in recent decades, wealth increases achieved via home-ownership should be included in our assessment of people's ability to pay for public benefits and services.

It is also timely to measure accurately citizens' ability to pay because of demographic trends. The aging population increases demand for government spending on retirement income security and medical care. Whereas Canadians prepay for much of the Canada Public Pension benefits on which they will draw in retirement, we do not prepay for the medical care we use disproportionately in our later years. Instead, provincial governments pay for medical care each year in response to demand for services. Whereas 31 cents of every medical care dollar went to Canadians age 65-plus in 1976, now nearly 50 cents of every medical care dollar goes to this age group. As the proportion of Canadians age 65-plus grew from 9 per cent of the population in 1976 to 15 per cent today, annual health care spending for retirees increased as a share of our national economy by over $30 billion dollars. Over the same period, governments did not increase general revenue to pay for this additional medical care spending (Kershaw 2015). The result is less fiscal capacity for governments to invest in policy adaptations for younger Canadians squeezed by lower incomes and higher costs. This pattern raises concerns about intergenerational unfairness.

Factoring housing wealth more prominently in how we measure people's ability to pay for public benefits and services is one way to address these concerns.

This approach would recognize that the key driver of wealth for the majority of the aging population now represents an important source of prosperity on which they can draw to pay a fair share of the revenue required to cover their growing demand for health care. In addition to cooling down the escalation of housing prices, this approach to annual housing wealth taxation would enable provincial and federal governments to preserve fiscal capacity with which to adapt policy to ease the time, money, service and environmental squeeze constraining younger Canadians—while continuing to meet the needs of the aging population.

c. *Try to tax net housing wealth, not just gross wealth.* Someone who owns outright a home worth $400,000 has more housing wealth than someone who owns a home worth $400,000 but still owes $325,000 on a mortgage. Government efforts to tax housing wealth would ideally factor this difference into our measurement of ability to pay.

   While taxing the net wealth resulting from the gross estimated value of a home minus any outstanding mortgage is simple in principle, it is complicated in practice. Taxpayers would have inefficient incentives to borrow routinely against their home to evade housing wealth taxation, and invest elsewhere.

   One way to approximate taxation of net (not gross) housing wealth would be to recognize that, from a life course perspective, people typically have greater mortgage debt in their young adult years when their earnings potential is lower and they have had less time to pay off housing debt. Accordingly, provincial and/or federal governments could introduce a *portable housing benefit* for Canadians under a specified age threshold—for example, under age 40—to be applied as credits for a portion of mortgage interest against taxes owed. As we discuss below, the same *portable housing benefit* for Canadians under 40 should also permit the credit of some portion of rent against taxes owed in keeping with our principle to level the playing field between renters and owners.

d. *New housing wealth taxes should be introduced in tandem with reductions to income taxation, etc.* Incomes have been growing more slowly in Canada than we would like, yet we still rely heavily on income taxation. By contrast, housing prices have been rising at alarming rates, and we tax housing wealth relatively little. It is time to re-think the balance we strike when using different tools and approaches for taxation. Let's tax harmful things more, and good things less.

7

Recognize Low Interest Rates Cut Both Ways for younger generations

Smetanin et al. (2016) observe that low interest rates over the last several years have been an important factor fueling housing prices, because "cheap, accessible credit" enables people to purchase more expensive homes, while taking on greater risk due to growing indebtedness. One implication is that the demand for housing which is driving the escalation in prices can be cooled by monetary policy that raises the cost of borrowing.

However, with higher interest rates, home-ownership moves further out of reach for younger Canadians who are not yet in the housing market, and the risks of carrying heavy debt loads are amplified for those who have purchased a first home in recent years. There is already an 8 year deterioration in the standard of living for young people (and a 10 year deterioration in Ontario) when measured in terms of the amount of full-time work required by a young adult to save a 20 per cent down payment. On top of all this extra work to save for the purchase, our analysis shows that young people have to labour an extra month per year to make the annual mortgage payment even at historically low interest rates. B.C. and Toronto require an extra three months of work per year from their young residents to pay the mortgage. This extra annual work required will only increase if/when interest rates rise. As a result, maintaining the low cost of borrowing appears to be fundamentally important for younger people if they are to have a chance to cope with changes in the ratio between housing prices and full-time earnings.

The fact that the cost of borrowing cuts both ways for younger Canadians in terms of their standard of living invites consideration of two related themes.

a. First, the Bank of Canada currently prioritizes low interest rates to stimulate the overall Canadian economy which has remained sluggish since the 2008 recession. Given this macroeconomic priority, are there monetary policy adaptations that could be made to regulate access to credit specifically for the purpose of purchasing homes? Could this be done in ways that increase the cost of borrowing for home purchases, while retaining lower interest rates more generally for other kinds of borrowing so that the Bank of Canada can continue to stimulate the broader economy?

b. Second, if/when the cost of borrowing for mortgages increases, are there policy tools that would allow younger Canadians to access credit at discounted interest rates so they can cope better in today's housing market? There is some precedent for an age approach to lending as it relates to housing. For example, the B.C. government permits seniors to defer their property taxation and pay interests rates below 1 per cent. This is a substantial advantage compared to the nearly 3 per cent interest rates that the province charges families with children when they defer their property taxes.

   The problem in practice, however, will be that money is fungible, and age-based approaches to cost of borrowing for home purchases will result in a range of wasteful activities as people work around the spirit of the age rules to access cheaper interest rates. Given this implementation challenge, there is even greater reason to consider the idea of creating a portable housing benefit through tax credits for mortgage interest or rent costs incurred by those under age 40 to be applied to either income or housing wealth taxation, as proposed above.

Any policy adaptation designed to increase the disposable income of young Canadians to help them better manage the higher cost of homes has the risk of injecting more money into the market, potentially sending home prices even higher. It will therefore be important to match these principles for policy reform with commitments to increase the supply of homes, because growing the supply will exert a downward pressure on prices (see principle 3), as will revising the taxation of housing wealth (see principle 6).

8

Modernize the Treatment of Age in housing policy

Presently, property taxation is the primary source of revenue for municipal governments, with provinces generally setting guidelines governing how local municipalities can raise revenue from this source. Municipalities typically offer the largest property tax breaks for Canadians age 65-plus, regardless of the wealth they have accumulated in their homes or from their incomes. This tradition reflects the historical reality that, a generation ago, seniors suffered the highest rates of low-income status in the country. Now seniors enjoy the lowest rates of low-income, and have often accumulated considerable wealth in their homes (Kershaw 2015). It is therefore time to shift property taxation away from blunt assumptions that retirees are particularly vulnerable when it comes to coping with housing costs. This recommendation is echoed in a recent publication by the Institute for Research on Public Policy (Kitchen 2015).

The implementation of this reform would require provisions that continue to permit citizens with high value homes but low annual incomes to defer the annual property taxation until the sale of the home. But so long as the housing market continues to drive up the wealth of home-owners age 55+ while squeezing out younger Canadians and/or making them far more indebted, it should no longer be presumed that retirees merit the most advantageous interest rates for deferred property taxation.

In the spirit of this principle, Ontarians may find interesting the Government of B.C.'s plan to help first-time home-buyers cover the cost of a mortgage down payment by providing a loan of up to $37,500 that will be interest free and payment free for the first five years. Dubbed the "B.C. Home Owner Mortgage and Equity Partnership program," the intention of the policy is to assist prospective first-time buyers who can afford the mortgage payments on a new home but are challenged to make the down payment. According to provincial government numbers, the program will spend around $234 million annually over three years to help an estimated 42,000 buyers.

Adapting policy to compensate younger Canadians for the harm inflicted on their standard of living by the housing market is an appropriate government priority, especially when the high home prices that harm young adults often make other older members of their families wealthier. Generation Squeeze therefore gives the B.C. Premier and her government an A+ for good intentions. But they don't get a passing grade for execution.

Any adequate, and sustainable, policy adaptation to the #CodeRed crisis facing younger Canada in the housing market must prioritize measures that are less likely to encourage home prices to leave earnings further behind. The proposed government loans do the exact opposite, because they fuel market forces that pump up the sales price and will likely result in predominantly young people paying more for a home that may have cost less in the absence of the government's loan program. The result is first-time home-buyers will incur more debt, while those already in the market (often our parents, grandparents or developers) will get wealthier because they can sell their home for even more.

If policy makers want an A+ on helping first-time homebuyers, they need to focus on policy that helps rein in escalations to already sky-high housing costs, in keeping with the principles discussed above.

A more appropriate way to modernize our treatment of age in housing policy would be to introduce an age-specific portable housing benefit that reduces taxes for younger Canadian adults (say under age 40) by permitting them to credit some of their rent or mortgage interest against their taxes owed. This would help them save better for a home and/or stretch their earnings to cover higher home costs. All young residents would benefit from this policy proposal, including those who have already bought homes in addition to those who may never own, rather than the much narrower group of people who may participate in the new B.C. loan program.

9 Go Beyond Housing Policy to ensure child care, parental leave, transit, etc. no longer add up to mortgage-sized payments

We should balance the interests of parents and grandparents who wish to protect the equity they have gained from higher home prices with the interests of their kids and grandchildren to make homes in real estate markets that are growing out of reach. This principle has several implications, including:

a. *Don't let child care, parental leave, postsecondary transit, etc. add second, third & fourth mortgage-sized payments.* We should make policy investments to reduce dramatically the costs of child care, parental leave, transit, and student debt so that younger Canadians can better cope with the higher home prices that support financial security for the aging population.

b. Since child care fees cost 50 per cent more than university tuition, this is a particularly important cost to bring down through public investment. Since 2011, Generation Squeeze has recommended that child care be priced at $10/day ($2,500/year), with no fees for families earning less than $40,000. For more information see "Does Canada Work for All Generations?" (Kershaw and Anderson 2011).

10

Implement the "Acting on Climate Change" Recommendations

Generation Squeeze endorses recommendations from the position paper "Acting on Climate Change" developed by more than 60 Canadian researchers representing every province (The Sustainable Canada Dialogues 2015). These recommendations propose actions that could be adopted immediately to kick-start Canada's necessary transition toward a high-prosperity, low-carbon economy. Recommendations include:

- Price pollution more. In keeping with the principle to tax more what we don't want (like home prices that have left earnings behind), while taxing less what we do want (higher earnings for middle and lower income earners), Ontario should accelerate its Cap & Trade carbon pricing more aggressively, and reduce other kinds of taxes.
- Build East- West intelligent grid connections that allow hydroelectricity-producing provinces to sell electricity to their neighbors while taking full advantage of Canada's low carbon energy potential from intermittent renewables such as wind and solar energy. Such grid connections would enable Canada to rely 100 per cent on low-carbon electricity production by 2035.
- Well-managed energy efficiency programs that produce cost savings and job creation. Energy efficiency programs could target transportation, and the building sector.
- Support the building sector to evolve toward a carbon neutral or carbon-positive sector, including investment in renewable and ambient energy for new and existing buildings. Integrate sustainability and climate change into landscape planning at the regional and city levels to ensure that investments to build new, or maintain existing, infrastructure are consistent with the long-term goal of reducing carbon emissions.
- Support sustainable practices in fisheries, forestry and agriculture in order to limit greenhouse gas emissions and, where possible, to increase carbon sequestration, protect biological diversity, and improve water quality.

The ten principles we describe above are motivated by a vision of Ontario and Canada that works for all generations. Generation Squeeze invites all who are motivated by such a vision to join us in endorsing and promoting these policy solutions at all three levels of government, including before, during, and after the next provincial election in Ontario (www.gensqueeze.ca). We invite you to Suit Up, Spread Out and Squeeze Back with us, because we know that politics responds to those who organize and show up.

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