A Fortunate Country

By 2020, Canada's standard of living will be universally admired as we use our natural resources and immigrants to forge links with superpowers.

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By David Foot

In 2020, annual economic growth in Canada is forecast to drop to an anemic 1 per cent. There is no recession. National economic growth has been declining for more than a decade.

There is much hand-wringing among the nation's economic elite about this lacklustre economic performance, especially since economic growth in the U.S. is expected to be higher. But there should be no surprise. This difference in economic performance reflects, in large part, the higher fertility of Americans 20 years earlier that has resulted in more consumers and workers.

Moreover, despite the continued claims from both business and government of widespread labour shortages, the unemployment rate in Canada remains mired above 5 per cent as older workers and immigrants continue to languish in the changing labour market. It appears that little has been learned from the previous 20 years.

That is not to say that government has been inactive. In the mid-2010s, Canada championed new legislation that, despite strong opposition from employers, outlawed ageism in the workplace and required employers to "respect and recognize" foreign credentials. It also required employers to pay for skills upgrading necessary for new hires.

This legislation imposed costly evaluation and retraining on employers. It also exposed them to potentially expensive lawsuits from immigration lawyers and Boomers now in their 60s and early 70s. Unrelenting demands for lower taxes and reductions in the size of the public sector left federal and provincial governments with insufficient resources to respond to these educational challenges, especially since health-care spending had absorbed all discretionary spending. The electorate was angry and had demanded action.

The quid pro quo for final passage of the legislation was a commitment to employers to raise immigration to levels that had not been experienced for a century. Nearly 400,000 immigrants arrived the previous year. Intake rules had been changed years earlier to permit limited numbers of unskilled and semi-skilled workers who were not immediately subject to minimum wage laws. This caused much debate in the general population and especially in the immigrant community.

However, employers were still "negotiating" with the various unions, professional associations and government agencies over who would evaluate their credentials.

The debate created an unusual alliance as both unions and professional associations united with employers in their opposition to the legislation.

Yet it had become clear to many that employers wanted abundant cheap labour, while unions and professional associations were fighting to protect their incomes. No one appeared to be concerned about the increasing numbers of unemployed and the ever-widening disparities in income that had resulted from past policies. The public became increasingly disillusioned, so the new Egalitarian party used its balance of power in Ottawa to get the legislation enacted.

Much of the debate had focused on declining standards of living and Canada's role in the global economy. Despite a decade of tepid economic performance and a divisive national debate, Canadians wondered why they were still admired globally.

Faster economic growth in the U.S. – a Canadian benchmark – had not guaranteed the U.S. global domination or admiration. However, the Canadian economy had outperformed most other countries in the former developed world, including Europe, Japan and other former Asian powers. Canadians remained one of the better-educated populations and natural resources, including open spaces, forests, diamonds, oil, gas, uranium and especially water, continued to provide Canada with potential that many other nations lacked. Canada was viewed as a fortunate country.

In addition, continued workforce growth was envied in many countries now dealing with shrinking workforces. This moderate growth reflected somewhat higher Canadian fertility in previous decades and a long, well-established commitment to immigration. The economy continued to grow, albeit at a slower pace and quality of life remained high in global comparisons.

How could this be? Quality of life is difficult to measure. It depends on many things – the air we breathe, the leisure time we enjoy, the security of our persons and possessions and, of course, our incomes. Choosing any one limits discussion, but understanding part of the picture contributes to an understanding of the whole. This is why economists often focus on an economic measure, namely income per person, which is sometimes referred to as the standard of living.

With slower economic growth, how could Canadians' standard of living be globally admired in 2020? A non-shrinking population helped, as did continued participation in the expanding global economy. The incomes generated by selling at home and abroad the myriad of products and services produced in Canada added to incomes.

It is important to remember that standards of living are measured in per person terms so the number of people who share in the income influences the outcome. For standards of living to rise, income growth must be faster than population growth. Alternatively, and perhaps of more relevance when populations decline, stagnant or even negative income growth can still result in rising standards of living, albeit for fewer people. Japan has become a prime example of this phenomenon over the 21st century.

Slower population growth became a reality for many countries of the world in the late 20th century. By the early 21st century, population decline had set in for some such as Russia and Japan. Not surprisingly stagnant economic growth also became a reality.

This did not automatically mean these peoples were worse off. In fact, reducing the growth and especially the size of the human footprint had environmental benefits, thereby improving the quality of life as well as the standard of living.

The age of declining population growth and, in some countries, declining population size reduced the pressures for rapid economic growth.

People came to understand that they could be better off with slower economic growth, even if business continued to pine for more rapid economic growth to sell their wares.

Why had economic growth slowed?

Workforce growth was always the crucial determinant of a country's economic growth. The slower the workforce growth, the slower is potential economic growth. Whether the economy under- or over-performs relative to its potential depends on the share of the workforce that has jobs and the productivity of those who are employed.

This depends on the behaviour of both employees and employers. High unemployment rates sap economic growth, while productivity performance depends not only on work effort but also on the quantity and quality of equipment provided to workers.

In many formerly developed countries, the Baby Boom generation had determined their economic history. In Canada, which had one of the loudest Booms, the first Boomer born in 1947 turned 16 in 1963, while the last Boomer born in 1966 turned 16 in 1982. Consequently, Canadian workforce growth rose rapidly over the 1960s and, especially the 1970s and then subsided in the 1980s. The impact of the birth control pill on births ensured slower workforce growth over the 1990s and into the new millennium.

Of course, not everyone enters the workforce at age 16. Increasing education reduced workforce participation among younger adults and increased it among middle working ages, especially for women. In the new millennium, workforce participation in the later working ages increased for both sexes. This increasing workforce participation contributed to faster workforce growth.

However, the inability of both the public and private sectors to enable the participation of aging Boomers reduced the potential for growth. This lost opportunity contributed to worker dissatisfaction and, ultimately, slower economic growth.

Nonetheless, history had already set the scene for 2020. By the 1990s, workforce growth was one-third of the 1970s, so slower economic growth in Canada was well entrenched by the beginning of the 21st century. The fact that average economic growth over the 1990s was two-thirds of the 1970s implied that the country's workforce became more productive. However, overall population growth did not slow as fast as workforce growth so the per person standard of living did not rise as fast. Increasing productivity had not automatically produced increased standards of living as many commentators had promised.

Recognition of the importance of population growth in determining workforce and economic growth led to receptivity in the general population for increased immigration providing the newcomers were integrated into the workplace. However, despite rising immigration levels, population growth continued to slow. The entrenched below-replacement fertility levels continued to dominate population growth.

More dramatic, however, was the slowing growth of the workforce. The first Boomer had reached 65 in 2012 and while many Boomers continued to seek work through their 60s, ageism and the pension inflexibilities frustrated their desires to keep working. Their search for flexible employment opportunities consistent with part-time retirement continued to meet resistance from employers.

This is what precipitated the demands for legislative solutions. By 2020, most of the first half of the Boomer population had left the workforce. Average workforce growth over the 2010s was one-eighth of the growth rate of the 1970s.

Slower economic growth mirrored workforce growth and fell to less than one-third of the economic growth rate of the 1960s. While alarm bells rang in the corridors of economic power, polling results showed Canadians happy with their standard of living. Why the inconsistency?

Slower economic growth certainly made management more challenging in the new millennium. There was less flexibility to reallocate resources in both the private and public sectors.

In the more rapid growth days of the past, management could reduce the relative importance of one area by freezing rather than reducing budgets elsewhere. That strategy became increasingly difficult when the pie was not growing as fast. As a result, pressure from shareholders and the press increased on management to be more accountable and more creative along the road to 2020.

Of course, any economic growth in excess of population growth increases the standard of living.

However, as workforce growth dropped below population growth, this became more difficult to achieve. Attention became focused on the causes of continuing high unemployment and ongoing concerns about discrimination in the workplace, as well as Boomer retirement and productivity performance. This attention sowed the seeds for the new legislation.

With increasing shares of new immigrant and older workers in the workforce, eliminating discrimination became an important part of the economic growth challenge.

For the immigrant worker it meant recognizing the skills that they brought from their homelands. For the older worker it became necessary to implement new policies to enable and encourage older workers to remain in the workforce. Policies that allowed workers to simultaneously add to and withdraw from pensions were discussed. But the reluctance of employers, unions and professional associations to voluntarily confront the challenges led to the legislative initiative.

Nonetheless, as challenging as this scenario was for Canada, it was even more challenging for many other countries in the world. Canada had at least experienced workforce growth rather than the decline that occurred elsewhere.

France, Germany, Italy, Japan, Korea, Scandinavia and much of East Europe (Czech Republic, Hungary, Poland, Slovakia) had faced declining workforces and many other countries such as Belgium, Greece, Netherlands, Norway, Portugal, Spain and Britain had faced even slower workforce growth than Canada.

This is a substantial list. Only Australia, the U.S. and a number of smaller countries (Iceland, Ireland, Luxembourg and New Zealand) had experienced faster workforce growth than Canada. And we had its natural resources. By comparison with these other developed countries Canada had performed remarkably well in the 21st century.

Not surprisingly, this comparatively poor economic performance in the former developed world had led to a precipitous decline in its economic power in the global economy. There was no surprise in the increasing role played by the demographic superpowers of India and China, but China's need for international workers had taken the world by surprise.

No pundit appeared to have anticipated the impact of the one-child policy on subsequent growth performance. New global superpowers were emerging from surprising places.

Turkey in Europe, Brazil in South America, Vietnam in South Asia and Iran in the Middle East were assuming leadership roles in their regions and in the global economy. The world was changing, and Canada was changing with it. Immigrants from these and similar countries were now business leaders in Canada and provided invaluable links that ensured Canada's continued presence in the global economy.

Slower workforce growth is inevitable in aging populations. The magnitude of the slowdown in many countries, including Canada, substantially reduced economic growth in the new millennium.

This should not have been a surprise or even a cause for concern. It is still possible to maintain continued rising standards of living if economic growth exceeds population growth.

A number of countries were relying on shrinking populations to maintain their standards of living, but Canada was not in this group. With the gradual retirement of the Boomers over the 2010s, immigration had played an ever-increasing role in population growth and the controversial legislation had laid the foundation for bolstering workforce growth.

The road to 2020 had been largely predictable through the demographic lens. Canada had performed admirably, especially by comparison with most other countries in the former developed world. The good fortune of abundant natural resources had helped. By 2020 the country's standard of living and quality of life was universally admired.

And Canada's role in the global economy was as strong as ever as it used its resources and immigrants to forge links with the emerging superpowers. Canada was indeed a fortunate country. And Canadians remained surprised!

David K. Foot is a professor of economics at the University of Toronto, and co-author of the Boom, Bust & Echo books.