GENERATION | squeeze

December 6, 2022

Dr. Paul Kershaw opening remarks to Senate Committee on National Finance

On behalf of Generation Squeeze, a "Think and Change Tank" promoting fairness for all generations, I share praise for what is included, and excluded, in the Fall Economic Statement.

Included: We applaud the ongoing and historic commitment to lead funding for the roll out of child care improvements across the country. We are delighted that the Government of Canada adopted $10/day child care as its label for this historic public investment – which is the brand that Gen Squeeze coined for our national child care recommendation over a decade ago. At a time of rampant inflation, the move toward $10/day child care is a rare bit of financial good news for new and aspiring Canadian parents.

Excluded: We applaud that the Government of Canada resisted the Official Opposition's call to retreat from the pollution pricing plan. Yes, Canadians are facing a number of cost of living challenges as a result of inflation. But we cannot solve our wallet problems by neglecting our climate problems

In addition to this praise, we also wish to identify a missed opportunity, because the Fall Economic Statement overlooks a key, nearly no-cost, policy change that is critical to fighting the country's inflation challenges.

The Statement failed to acknowledge that Statistics Canada has underestimated housing inflation for decades, harming younger Canadians by failing to sound the inflation alarm years ago.

StatsCan, our nation's venerable data cruncher, shapes our national dialogue about inflation because it is responsible for calculating the Consumer Price Index (CPI). The CPI is what the Bank of Canada looks at when it evaluates its success at keeping inflation in check.

Many may be surprised to learn that the CPI doesn't pay much attention to the way that housing prices matter to younger Canadians and newcomers when they want to buy a home. That's because CPI doesn't monitor the size of the down payment that first-time buyers need to save. Nor does it give enough attention to the total amount people need to borrow.

This shortcoming with StatsCan's measure of housing inflation, along with others identified by the Business Council of B.C., gives rise to a troubling data disconnect.

Since 2000, average home prices have risen by a whopping 318 per cent, based on calculations of Canadian Real Estate Association data. By contrast, Statistics Canada reported that total inflation over the same period rose by 48 per cent.

As a result, for many of those years, the CPI signaled that annual inflation was generally below the Bank of Canada's 2 per cent threshold for interest rate hikes, which discouraged the central bank from raising interest rates. That's until the pandemic and Russia's war on Ukraine contributed to soaring energy and food prices this past year.

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The disconnect between what's actually happening to average housing prices and the CPI is concerning for anyone struggling to afford a place to call home, and should be concerning to the Government of Canada. The decades-long underestimation of inflation by StatsCan betrayed younger Canadians by being a key factor encouraging the Bank of Canada to keep interest rates at historic lows.

Low interest rates decrease the cost of taking on a larger mortgage. Buyers who are able to borrow more bid up home prices. Rising prices aren't adequately captured in inflation data – and there's your feedback loop, fueling home price increases far beyond what hard work can earn, devaluing money for young people, newcomers and renters.

Yes, some first-time buyers want the lowest possible interest charges in order to borrow frighteningly large mortgages so that they can straddle the massive gap between home prices and local earnings. But their desire for this individual coping strategy amid our dysfunctional housing system reinforces trends that are working against first-time buyers, because they aren't the only people borrowing.

Current homeowners who have more capital than first-time buyers use low interest rates regularly to outbid their novice rivals. That's why StatsCan Census 2021 data reveals newly-built homes are increasingly being bought by investors, and then rented out to younger people; and why one in six Canadian home owners now owns multiple properties.

In short, Statistics Canada measurement of housing inflation prioritizes the experience of existing homeowners, underestimating the challenges facing those hoping to buy for the first time. This problem contributes directly to the "intergenerational injustice" that Finance Minister Freeland identified in Canada's housing system earlier this year.

Just like the right road signs help keep us safe by making traffic clearer and more predictable, the right economic signals help steer our financial systems towards stability, prosperity and equity. Unfortunately, the housing inflation signals sent by StatsCan gave us the green-light to speed recklessly through intersection after intersection, putting ourselves and others in danger.

If we'd gotten the signals right years ago, we could have recognized the perils of runaway housing inflation sooner, sparing younger generations the challenge of coping with soul-crushing levels of unaffordability.

There's no silver bullet to restore housing affordability or reduce housing wealth inequality. However, there is "silver buckshot." Increasing housing supply, revamping tax policies, and protecting renters, are all important. But so is ensuring that accurate information about inflation drives our monetary policy, because that policy is so critical for fueling or slowing home prices.

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Question re Child Care

At a time of rising interest rates and rampant inflation, the move towards $10 a day childcare is a rare bit of financial good news for new and aspiring Canadian parents.

But, as Ottawa has rolled out the plan, it's become clear that many families will likely end up paying far more than ten bucks per day. As it negotiated separate deals with the provinces and territories, the federal government always intended $10 to be the average – not the maximum.

We should all work to make $10 per day into more than just a guideline.

Childcare is a huge expense for young families each month, often amounting to a second rent or mortgage-sized payment. Young people must pay for this cost on top of housing prices that are frighteningly higher than when Baby Boomers started their families. Today's home prices more often require two earners per household, and pressure lone-parents to be in the labour market – making childcare a necessity.

Childcare payments also often cost more than university tuition. Many young families are squeezed between this cost and repaying their own student loans. Today's loans are typically much higher than the student debt incurred by Baby Boomers because tuition and cost of living have increased substantially since they started postsecondary.

Just imagine how much more manageable it would be to cover your rent, student loan payments, save for retirement, or pay for adaptations to climate change, if child care cost just $10 per day (or less for low-income households)? The financial relief is huge, when you compare child care fees that routinely cost more than $60 per day in cities across Canada.

Saving up to $50 per day is a BIG deal for parents. Multiply that by approximately 21 days in a month and you've saved $1,050. That's on par with what the average rent for a two-bedroom apartment in Canada.

Parents can now taste these savings, because the federal government made a $30 billion investment to phase in $10 per day child care over the next five years – sustained by a $9 billion annual investment thereafter. It is truly historic. A new social program of this magnitude has not been built in my lifetime.

That's why I've worked for years to ensure we deliver the full savings to all families. Unfortunately, that's not the current plan.

Ottawa promises that $10 will be the average. As the federal government has struck deals with individual provinces, it has also granted those provinces considerable leeway in how they use the additional funding. And while all provinces acknowledge the target of $10 per day, it seems like that's a number mostly designed to grab headlines. The actual details are far messier.

In Alberta right now, parents pay between $10 and $22.19 per day, based on household income. In Ontario, fees will be cut by 50 per cent in 2023 compared with 2020 levels, but that still means a wide variation in the actual daily rate. And Manitoba has expanded an existing subsidy

system with the level of financial support determined by income. This means households earning more than $82,877 have seen no change in their fees at all.

When we charge higher fees to affluent families, we incentivize them to search for private options. This will risk robbing the new publicly-funded child care system of the support it needs for long-term success and survival. We don't tolerate this risk for education and health care.

Instead, affluent individuals contribute more to publicly-funded health care and schools by contributing more in taxes over their lives. Their tax rate rises with their incomes.
We should be supporting childcare in the same fashion.

We only have one chance to get people off to a good start. So it's just as important to plan and invest in young people's wellbeing as it is the wellbeing of the aging population. If you want to help all families retrieve a big chunk of their purchasing power, then we need to make our voices heard now. Encourage your elected officials to ensure $10 per day is the maximum fee for childcare, not just the average.

And show some love online to Child Care Now. It's urging governments to scale up the promised $10 per day childcare system faster by attracting the necessary child care professionals with wages that pay them fairly in return for their highly-skilled work.

Together, we can all make $10 per day child care a game-changer for the finances of Canadians with young kids – compensating for a range of economic challenges that younger people inherit as Baby Boomers retire.

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Questions about intergenerational tensions in the federal budget

I refer Senator Bovey and others to our analysis of the 2022 federal budget:
https://www.gensqueeze.ca/federal_budget_2022_analysis

Along with our budget recommendations for 2023:
https://www.gensqueeze.ca/federal_2023_budget_recommendations

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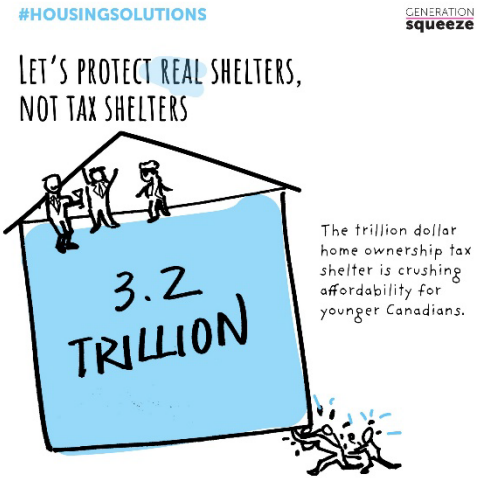
Question about how to improve the tax system

When it comes to housing in Canada, the status-quo has created inequality and complacency.

Inequality, because rising housing prices lead to wealth windfalls for some while eroding affordability for others, which limits their chances to live up to their potential and enjoy life.

Complacency, because some homeowners reap wealth windfalls from skyrocketing prices without recognizing that their gains help to keep many others on the outside looking in.

It's time for creative disruption to this status quo. It's time to break Canada's addiction to high and rising home values, by rebuilding our housing system around the concept of "Homes First. Investments Second."



Key to this disruption is recognizing that the hard work Canadians do every day in their jobs is taxed more than the wealth homeowners gain from the rising value of their home while they sleep and watch TV. Currently, our tax system shelters from taxation the $3.2 trillion in added housing wealth homeowners have gained since 1977. It therefore incentivizes people to prioritize housing as a way to get rich, rather than a place to call home.

Just like offshore tax shelters motivate moving money out of Canada to preserve assets, the home ownership tax shelter motivates us to bank on rising home prices to gain wealth. Why do we consider the former a betrayal, but celebrate the latter? A system that turns home ownership into an investment strategy is crushing affordability and harming younger and future generations. It's time to protect real shelters, not tax shelters.

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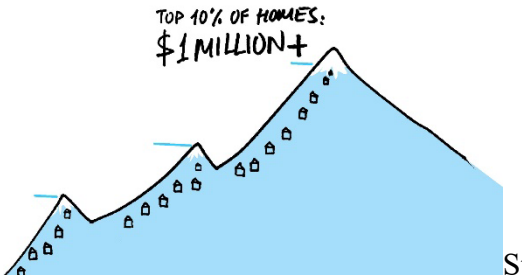
We can start down this path by putting a price on housing inequity by adding a modest surtax (starting at 0.2% and peaking at 1%) on home value over $1 million in order to slow down home prices so earnings have a chance to catch up.

New taxes are often a taboo subject in Canada, and already Canadians have been subjected to scare tactics charging that any changes to housing taxation are tantamount to government seizing your homes. In reality, a Million Dollar Home Surtax won't cost 90% of Canadians a penny. It only proposes to tax a little more those living in the country's most affluent homes.

If you own a home valued at more than a million bucks, you may be surprised to learn that you live in the 10% most valuable real estate in Canada. You may be especially surprised, if your 'million dollar home' isn't the mansion that some people might imagine goes along with this price tag.

Many of those living in million dollar homes today may not have expected to find themselves in this top 10%. Many might have bought an average-priced home decades ago, and worked hard to pay for it with typical wages – never anticipating that enormous increases in home values would turn them into millionaires. But expected or not, the same rising housing values that bestowed additional wealth on some, have crushed affordability for others, including younger and future generations and newcomers to Canada.



Still, even if you are part of the top 10%, there's no reason to fear a Million Dollar Home Surtax. A $1.2 million home would owe $400; a $1.5 million home would pay $1,000. And just like the reverse mortgage programs so widely advertised on TV, you wouldn't have to pay until the home is sold so we guard against disrupting people who are house-rich, but cash-poor.

An additional $400-$1,000 each year is a small price to pay to help slow runaway home prices so that the earnings of young people, seniors who rent, and newcomers can reconnect. It's also a modest figure when considered relative to taxes on wages.

Middle income Canadians earning $60,000 a year pay about $10,000 in income taxes. They pay this amount whether they are renting a home, or own a home that has increased in value by hundreds of thousands. The Million Dollar Home Surtax turns into policy the instinct we likely all share about these two scenarios – million dollar home owners are better able to pay a fraction more to tackle housing inequity.

The roughly $5 billion collected annually from the modest new tax will be used to make new investments in affordable rental and co-ops.

Taxing home value over $1 million isn't new or scary. Despite what some may have heard, it's not a blanket home equity tax, it's not a capital gains tax, and it doesn't require a big new government program to implement. Putting a price on housing inequity requires only small adjustments to property taxation practices already in place across Canada. It's a reasonable step to disrupt a system that is harmful to many, without imposing unfair costs on the 10% who will be asked to pay a bit more.

Our governments are already adopting new measures to tax luxury cars, boats and planes as first steps to address wealth inequality. We also have new tax measures aimed at restoring housing affordability targeting foreign buyers, empty homes, house-flipping and short-term rentals. These aim to restore affordability, but they affect too few households to make a big enough difference to the housing system overall.

We all know the saying "a person's home is her castle". Home is a sacred space of refuge and security, where we build our families and raise our kids. We cheapen what's sacred about homes

when we make it harder for everyone to access them by protecting tax shelters, at the expense of real shelters.

It's time to ask the 10% owning Canada's highest value real estate to tolerate a small price on housing inequity in order to demonstrate allegiance to the Canadian dream that a good home should be in reach for what hard work can earn, whether in rental or co-op housing, or as owners.

To restore affordability for all, we need home prices to stall, so earnings can catch up. A Million Dollar Homes Surtax is an important step toward this goal.

Poll: Majority of Canadians support a price on housing inequity
Levy would only be paid by the ~10% who own million-dollar homes

This year marks half a century since the Government of Canada created the home ownership tax shelter. This shelter exempts increases in the value of principal residences from taxation. No other wealth windfall enjoys such favourable tax treatment.

Just like offshore tax shelters motivate moving money out of Canada to preserve assets, the home ownership tax shelter motivates Canadians to bank on rising home prices to gain wealth. Treating home ownership as an investment strategy means many regular Canadians benefit when home prices rise beyond local earnings – despite these same prices crushing affordability for younger generations, newcomers of any age, and older renters. In the mid-70s, it took the typical young person 5 years of full-time work to save a 20% down payment on an average priced home. Now it takes 17 years.

Polling by Research Co. for Generation Squeeze shows that a **majority of Canadians are now ready for governments to soften the sharpest edges of the home ownership tax shelter.** Canadians are just as likely to *blame* this tax shelter for decreasing housing affordability as they are to blame "unethical behaviour by real estate agents," "developers building the wrong kind of supply," and "criminal activity (such as money laundering)."

"This poll shows many Canadians would support politicians to act courageously to reduce the home ownership tax shelter, because this policy sustains housing unaffordability and wealth inequality," observes Dr. Paul Kershaw, policy professor in the UBC School of Population Health and Founder of Generation Squeeze. "We've seen home prices stall as a result of the six interest rate hikes recently made by the Bank of Canada. But prices have stalled at unsustainably high levels, leaving a massive gap between home prices and earnings. More needs to be done."

Since Ottawa created the home ownership tax shelter in 1972, home values have increased hundreds of thousands of dollars across Canada – more so in BC and Ontario. One result is that many owners have gained substantial housing wealth, largely tax-free. This is especially so for the ~10% who own homes valued above $1 million. Owners don't need sell their homes to access tax-sheltered wealth gains, because home equity lines of credit are now common in the finance industry.

Finance Canada reports that the home ownership tax shelter costs Canadians $10 billion annually at the federal level. It costs provinces another ~$5 billion. This makes the home ownership tax shelter by far the *largest housing subsidy offered in Canada*. At a time when politicians are descrying Canada's housing affordability crisis, it may come as a surprise that we chose to subsidize so generously many of *the most securely housed Canadians.*

So far, federal and provincial politicians keen to tackle housing unaffordability have steered clear of fixing the home ownership tax shelter because they fear any change would be unpopular. Our poll results show just the opposite: **62% of Canadians support "implementing a modest surtax paid by Canadians who own homes valued above $1 million."**

This includes a majority among voters for each of the big three political parties: Conservatives (55%); Liberals (63%); and NDP (64%).

Support for a modest surtax on home above $1 million is especially high in Atlantic Canada (73%), Saskatchewan and Manitoba (72%), Alberta (68%), and Quebec (66%) where typical home prices are below the national average, and relatively few households own million-dollar homes.

A majority of Canadians (55%) agree that "the rise in housing wealth inequality is unfair to retirees in the Prairies and Atlantic Canada. They pay taxes on their pension income just like the retiree does in Vancouver or Toronto, but don't gain the large amounts of home equity that many retirees in Vancouver and Toronto do. By failing to tax the wealth gained by owners in Vancouver and Toronto, we expect retirees in the Prairies and Atlantic Canada to pay more than their faire share of taxes."

In BC and Ontario, where roughly 25% of households own homes valued above $1 million, one in two respondents supports the surtax.

Perhaps most interesting is the finding that 57% of million-dollar home owners – the only people who would have to pay more – support the proposed levy if it is described as a "modest price on housing inequity." Their support drops to 15% when it is described as a "surtax."

A modest annual price on housing inequity would raise approximately $5 billion per year. Many poll respondents indicated their support for this proposal would *increase* if the tax change:

- Pays for income tax cuts for middle- and lower-earners (43%)
- Pays for more affordable housing (40%)
- Pays for more medical care, long-term care and pharmacare (39%) or child care (32%)
- Helps slow home price increases, so earnings have a chance to catch up (38%)
- Reduces wealth inequality (37%)
- Reduces inequality between owners and renters (32%)
- Reduces wealth inequality between homeowners in high value markets like Vancouver and Toronto, and homeowners in places where prices are not rising as quickly like Atlantic Canada, Quebec, and the Prairies (30%).

Raw poll data can be found here. The poll was conducted among 1,010 Canadian adults, and the margin of error for the results is +/- 3.1 %age points, 19 times out of 20.

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