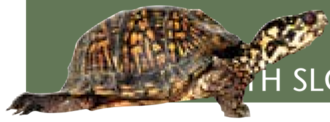
THE CANADA WE KNOW was built on the presumption of rising economic output over time. That faith has been factored into the way we live, from the social services and entitlements that are part of the furniture of our democracy to our expectations of greater opportunity for every generation that follows. | WHAT HAPPENS when the growth that sustains those programs and values subsides? In the following pages we ask not just whether we are fated to live with slower growth, but how we might adjust to living that way and, if we reassess how we define our sense of well-being, whether that shift could be a blessing.

Living with Slower Growth

Vivre en mode de faible croissance

TORTOISE PHOTOS: ISTOCK



MIKE VEALL

Slow growth can lead to worse growth

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The possibility of continued low productivity growth leaves me with two great concerns. The first is the consequence for government finances. The second is whether inequality in opportunity will worsen. Both could make a bad productivity situation worse.

Naturally, no one can be sure that the productivity slowdown will continue; indeed, I am optimistic about the chance of moderate improvement. Market forces might increase output per worker by more than expected, as the employed fraction of the population shrinks and the capital/labour ratio increases. Or pro-growth policies might succeed through the promotion of innovation.

But these are "mights." The corresponding "might nots" suggest the wisdom of taking precautionary measures to prevent a scenario where low growth leads to a government financial crisis that leads to still lower growth.

A few such measures have already been taken. One change has been the increase in Canada Pension Plan (CPP) and Quebec Pension Plan (QPP) contribution rates that began in 1997, with the consequent reduction in the unfunded liabilities in those plans. Even more important has been the rollout of an increase in the eligibility age for Old Age Security/Guaranteed Income Supplement (OAS/GIS). There is a dark side to this as, in the future, there will be unemployed, sick and/or disabled seniors aged 65 or 66 who would formerly have been entitled to the relative comfort and dignity of OAS/GIS but now will have to turn to provincial or municipal social assistance. I hope that this problem will be mitigated by other policy changes. But I have little doubt that replacing age 65 with 67 as the reference retirement year will increase output per capita and have favourable effects on both individual and government finances.

While government action on senior programs gives some optimism regarding its flexibility to adjust to a revenue-growth slowdown, it is harder to see reasons to be optimistic in the health care sector. It is ironic that a major root cause of the health care budget crunch lies in the one place where Canadian productivity growth has likely been high: medicine. The problem is that this productivity growth does not enhance the tax revenue stream, but rather expands the range of effective medical interventions. The result is a higher cost to the treasury.

On the question of inequality in economic opportunity, the work of University of Ottawa economist Miles Corak emphasizes that while Canada's level of income inequality is only moderately lower than that of the United States, Canada has a very high level of intergenerational income mobility (indeed much higher than that of the United States). This is likely due to the comparative strength of the public education system and, perhaps, the protections that have been afforded by public health care. But these are areas of provincial responsibility, and many provincial governments have serious financial problems that will be compounded if slow growth continues. If provincial program cuts lead to an increase in inequality of opportunity, Canada will lose the potential talent of some of its young people, and it will perhaps face increasing class tensions. These are not the only possible scenarios. But the risks highlight the central problem of this phenomenon: low growth can lead to worse growth. ■

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