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LOOKING BACKWARD AND LOOKING FORWARD – PART 3

PROGRESS' END?

JANUARY 3, 2014

3.0 Progress' End? Some New Evidence

While taking some grim satisfaction at noting the clarity of the fall of the middle class and the rise of inequality as a pinnacle issue, we are now interested in moving the conversation from diagnosis to prescription. For those convinced that all is well with the economy and that people are still more likely to be moving forward than standing still or sliding backward, we have some new data that puncture that fiction. While the data aren't perfect and the analysis is pretty much a first cut, we think that the evidence that the middle class is indeed shrinking and that for the first concerted period in our history, we are no longer moving forward from the past generation is pretty overwhelming. If indeed the public no longer feel that there is a better life in store for them and their children, this is a critical problem. The evidence continues to mount that this indeed is the case.

We compare some of our tracking in both Canada and the United States which shows just how recent and clear this decline has been (we will explain the importance of the U.S. comparison as we lay out this argument). This tracking covers a little over a decade and corresponds with one of the longest periods of tepid growth in upper North American economic history. What Tyler Cowen has called The Great Stagnation¹ is working in depressing lock step in Canada and the United States. And while the United States is more advanced on the inequality curve, both economies are seeing a much larger share of a much smaller pie go to a very small portion of über wealthy. This has vaulted concerns with inequality to a place it has never seen in the political issue hierarch – the pinnacle concern of the public. This isn't the old rich versus poor inequality; rather, this is everyone versus those at the top of the spectrum.

It is an odd sort of slow building crisis. Labour market confidence is stronger than the nineties and most citizens are still faring pretty well. It is those not so gentle trend lines that are disturbing and an increasingly black outlook on the future where only around one in ten upper North Americans think the next generation will enjoy a better quality of life². What we will show in this release is that once we disentangle the issue of intergenerational mobility by generational cohort, this extremely pessimistic outlook on the longer term future may already be unfolding.

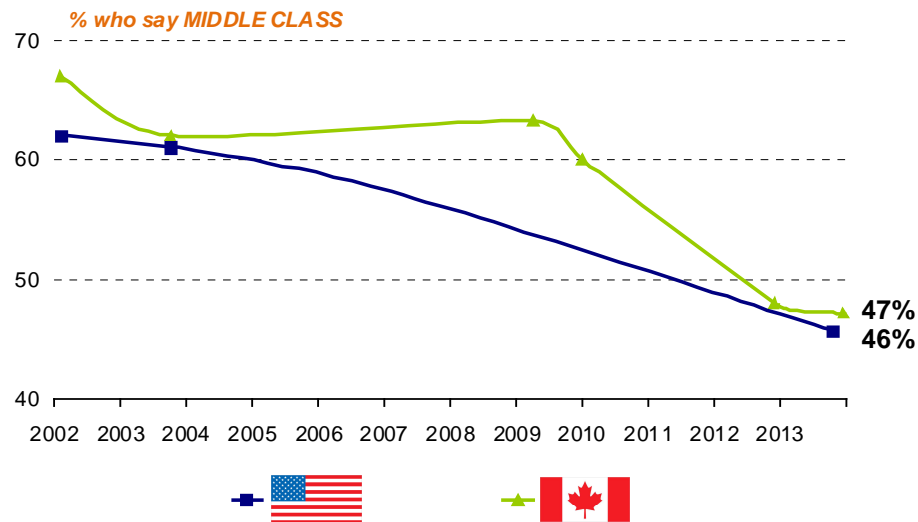
¹ Cowen, Tyler. *The great stagnation : how America ate all the low-hanging fruit of modern history, got sick, and will (eventually) feel better*. New York: Dutton, 2011. Print.

² See *"The NAFTA Promise and the North American Reality"*. Presentation by Frank Graves, Robert Pastor, and Miguel Basáñez to the Center for North American Studies (CNAS) & the Institutions, Law and Security Center (ILSC). October 31, 2013. Available online at: <http://goo.gl/yxdBSc>

First is the comparison of self-defined middle class. For those who say this has to be assessed in terms of income dynamics, we strenuously disagree. Obviously, income is critical to this phenomenon but middle class is a state of mind, not an income category. It summarises one's sense of location in the economy and society. It conveys a sense of optimism, security, and progress. I can afford a "good life" and enjoy the major fruits of my efforts and skill (e.g. a car, home ownership, a secure retirement, a better life still for my kids, etc.). We have heard of the hollowing of the middle class for many years, but the data of the past decade clearly show something new, momentous, and disturbing.

Tracking middle class

Q. Would you describe you and your household as poor, working class, middle class, or upper class?



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BASE: Canadians; most recent data point December 12-15, 2013 (n=3,468)

Source: "Stephen Harper and the Middle Class Crisis", December 20, 2013.

Full results available at: <http://goo.gl/wOPFNc>

The chart pretty well speaks for itself. In self-defined terms (asked in a semantically consistent manner in all cases), the middle class isn't hollowing – it's imploding. Huge numbers of Canadians and Americans are tumbling out of the middle class. We use the term "tumbling" advisedly as the full categorisation shows no upward mobility in aggregate. In total, the movements are downward to the burgeoning working and poor classes. The upper class is not growing – their share of the pie is merely growing. The promised fruits of monetarism and the bumper sticker simplicity of lower taxes and less government have proved to be a cruel hoax. No rising tides have lifted all boats; merely a very small flotilla of very large and very sybaritic yachts.

Moving up or down? Charting intergenerational mobility

The study of occupational and vertical mobility is an exceedingly complex area of inquiry. Normally we would have to await the assembly of carefully constructed longitudinal data linked to the census to come up with answers to whether people are moving forward or backward. Being impatient and guessing that the speed with which some of these forces are unfolding don't afford the luxury of perfect data we have collected some serviceable interim data which should give a reasonable picture of vertical mobility. The chart below shows the overall results to the questions of whether people are moving ahead or behind their parents (at similar stage of life cycle in constant, inflation adjusted dollars). We also compared human capital formation but we will focus on income here.

Income relative to parents

Q. Thinking about your current annual income and comparing that to what your father earned at the same age as you are now, would you say that, using inflation-adjusted dollars, you earn more, less, or about the same as your father? And what about compared to your mother?

Compared to father (men only)



Compared to mother (women only)



■ N/A □ DK/NR ■ Less (1-3) ■ About the same (4) ■ More (5-7)

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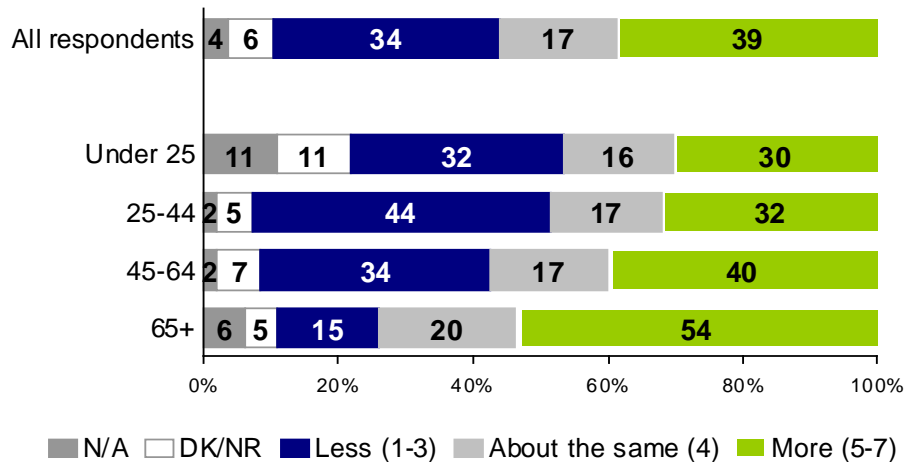
BASE: Canadians; December 12-20, 2013 (n=1,531)

Overall, the charts are not very informative, but they do suggest that the incidence of those who are making more than their father or mother leans slightly positive for men and decisively positive for women. For technical, not sexist reasons, the father-to-son comparisons are the better ones. This is because female labour force participation has risen dramatically over the past fifty years, as has employment equity and pay across gender. For these reasons, the father-to-son comparison are more instructive, although it is interesting to note that women are much more likely to have experienced upward vertical mobility than men. Hardly earth-shattering stuff.

Now let's unpack the data and look at it broken out by broad generational cohorts. We focus on the father-to-offspring data, but we will be refining this analysis in the near future. The following, relatively anodyne overall chart looks very different with a dramatic pattern. We can see that if there was a mild lean to slight upward mobility overall, this picture disappears and is replaced with an opposite picture as we move down the generational cohort. Seniors, born before the end of the Second World War, inherited a much more prosperous life than their father when he was a senior (over three-to-one upward mobility). For the swollen Baby Boom cohort, we see a similar but much less dramatic pattern of upward mobility, with a plurality of 40 per cent moving up (versus 34 per cent moving down). Now let's consider the plight of the Generation X and early portions of Generation Y. The picture is now very different. They are considerably less likely to be moving upward compared to their fathers and the incidence of upward mobility is literally three times lower than for the oldest senior cohort. The results of the millennial cohort are not as conclusive as they would include lots of students and we know that work entry is relative later for current generations so the early comparison aren't meaningful in this unadjusted state.

Income relative to father

Q. Thinking about your current annual income and comparing that to what your father earned at the same age as you are now, would you say that, using inflation-adjusted dollars, you earn more, less, or about the same as your father?



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BASE: Canadians; December 12-20, 2013 (n=1,531)

Stepping back, the relatively benign initial chart of overall mobility looks extremely different when analysed this way. Vertical intergenerational mobility seems to be collapsing for young Canada (and we suspect the same in the United States). It appears that that horribly dark outlook on the future may not be simply an exaggerated state of heightened anxiety. It appears that the flattening and reversal of progress may already be well underway. We have no doubt that there are distortions and vagaries in this simple analysis. But if the order of magnitude of declining progress (three times from seniors to Generation X) is even close to reality, we are in the midst of a very serious economic transformation which threatens the future in ways we could not have imagined a decade ago.

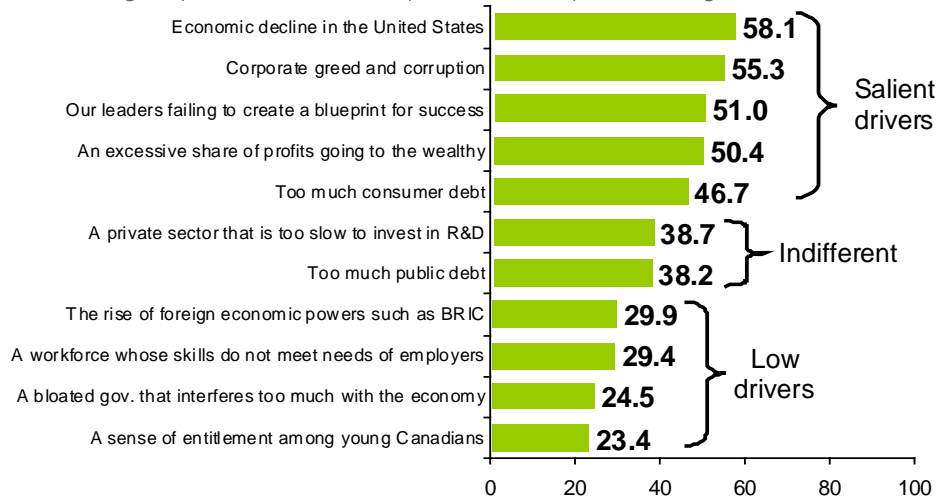
So what can be done? The public weigh in...

One of the more insidious features of the “end of progress” problem is the demotivation and despair that seems to be associated with it. Unlike more pyrotechnical events like a stock market collapse or a September 11th attacks, these effects have built slowly and largely indiscernibly until they are now pervasive, entrenched, and very difficult to confront. We find that people are reacting more in a state of “hunkering down” hoping to wait this out, rather than taking decisive action. In their heart of hearts, they do not believe this will do anything but make things worse.

It does appear that the public’s slumber on this issue has come to an end and they are demanding forceful and immediate action. In the final follow-up, we will review the public prescription for moving forward on this critical issue of the day. We close this section by revisiting a trade-off analysis which shows what the public believes are the key drivers of this problem of arrested economic development.

Primary driver of economic stagnation

Q. Canada is experiencing a period of slowed economic growth. Which of the following do you believe is most responsible for this period of stagnation?*



* These items were presented in a series of paired choices. The figures in this chart represent how often each option was selected over the other items that were tested.

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BASE: Canadians; October 10-14, 2013 (n=1,554)

Source: “So What’s Really Bothering You Canada?”, October 17, 2013.

Full results available at: <http://goo.gl/5L9fy7>

The chart is important for the following reasons. First, it shows that the public have a fairly clear sense of the hierarchy of forces driving this new regressive rather than progressive economy. This is important as recognition of the problem, and the causal forces producing it, are preconditions for confronting and solving it. While there are some obvious distortions and imprecisions, there is a lot of wisdom in the public’s diagnosis.



The dominance of American decline as the top factor deserves careful consideration. It is an exaggerated belief, but it is rooted in some clear reality. The triumphal end of history period was clearly overly exuberant in conferring permanent hyper power status on the United States, but the current sense of decline is just as overstated. Canada and the United States are increasingly moving in economic lock step and any solution to the end of progress dilemma must start with a reinvigorated North America (including a more buoyant, younger, and faster growing Mexico which, according to experts, will surpass the German economy in size within a decade). Let's put corporate greed and excessive share to the wealthy together and note that the public now believes that growth demands more fairness. The fuel of liberal capitalism is a belief that effort, skill, and ingenuity will produce a better future. If that cannot be restored, the shift from an inclusive to extractive economy will end in the same dark place that Daron Acemoğlu charts in his recent work³. Finally, the public are looking for a plan – a blueprint for success. They no longer want to hear that everything is okay and that we should be content. They want to aspire to lead not follow and they want neither denial of the problem nor empty bromide about something that is so viscerally affecting their lives.

Finally, we note the jarring disconnect between the low drivers and the things which the public are hearing about. The public does not think that the rise of China and other new powers is causing our failure. They don't think that the much touted skills mismatch in the labour market deserves the salience it is receiving from government and business leaders and they are not convinced that further ratcheting down of a bloated state is the problem (in fact, they want a more active – not less active – state). Finally, they discount the notion that entitled young Canadians are the fault.

We will return with some more specific suggestions from the public next week. We have established that this is a real and pressing problem, arguably the problem of our age. The public are looking for a blueprint to restore progress. We are looking for nothing less than a reinvention of liberal capitalism for the twenty first century that restores the incentives which produce a growing and optimistic middle class. And the window of opportunity to do so is closing fast.

³ Acemoğlu, Daron, and James A. Robinson. "*Why nations fail: the origins of power, prosperity, and poverty*". London: Profile, 2013. Print.


Detailed Tables:

<u>Income Relative to Father</u>							
<i>Q. Thinking about your current annual income and comparing that to what your father earned at the same age as you are now, would you say that, using inflation-adjusted dollars, you earn more, less, or about the same as your father?</i>							
	Less (1-3)	About the same (4)	More (5-7)	Not applicable	DK/NR	Sample Size	Margin of Error (+/-)
NATIONALLY	33.6%	17.4%	38.7%	3.9%	6.4%	1531	2.5
REGION							
British Columbia	40.3%	17.6%	30.1%	4.3%	7.8%	208	6.8
Alberta	25.3%	12.8%	47.8%	2.1%	12.1%	156	7.9
Saskatchewan	19.0%	21.6%	46.7%	0.0%	12.7%	27	18.9
Manitoba	34.2%	12.3%	42.3%	0.0%	11.2%	51	13.7
Ontario	35.7%	17.6%	36.2%	6.6%	3.9%	624	3.9
Quebec	31.9%	18.7%	42.7%	1.5%	5.3%	333	5.4
Atlantic Canada	34.4%	19.5%	35.0%	3.3%	7.7%	124	8.8
GENDER							
Male	33.0%	17.7%	44.0%	2.0%	3.2%	753	3.6
Female	34.1%	17.2%	33.7%	5.7%	9.3%	778	3.5
AGE							
<25	31.5%	16.3%	30.3%	10.9%	11.0%	36	16.3
25-44	44.2%	16.5%	31.9%	2.0%	5.3%	512	4.3
45-64	34.0%	17.3%	40.2%	2.1%	6.5%	581	4.1
65+	15.2%	20.0%	53.9%	6.3%	4.7%	323	5.5
EDUCATION							
High school or less	29.6%	16.8%	36.7%	7.0%	9.8%	333	5.4
College or CEGEP	36.3%	20.9%	34.9%	2.3%	5.6%	522	4.3
University or higher	33.9%	15.1%	43.2%	2.9%	4.9%	658	3.8
Country of Birth							
Canada	34.5%	16.7%	39.3%	3.1%	6.5%	1323	2.7
Other	27.4%	22.8%	35.9%	9.8%	4.1%	193	7.1
CURRENT VOTE INTENTION							
Liberal Party	32.7%	15.2%	38.7%	5.6%	7.7%	516	4.3
Conservative Party	24.7%	21.3%	47.7%	2.5%	3.7%	378	5.0
NDP	40.6%	16.9%	35.4%	2.6%	4.5%	316	5.5
Green Party	57.1%	10.7%	19.0%	5.0%	8.2%	79	11.0
Bloc Quebecois	31.1%	16.3%	48.5%	0.0%	4.2%	63	12.4


Income Relative to Mother
Q. And what about compared to your mother?

	Less (1-3)	About the same (4)	More (5-7)	Not applicable	DK/NR	Sample Size	Margin of Error (+/-)
NATIONALLY	18.3%	11.6%	47.0%	17.5%	5.7%	1531	2.5
REGION							
British Columbia	21.3%	12.9%	39.5%	18.2%	8.1%	208	6.8
Alberta	14.9%	8.2%	52.8%	13.1%	11.0%	156	7.9
Saskatchewan	3.1%	18.6%	48.8%	17.1%	12.4%	27	18.9
Manitoba	23.2%	13.6%	50.0%	9.8%	3.3%	51	13.7
Ontario	20.7%	10.4%	46.2%	19.2%	3.5%	624	3.9
Quebec	18.2%	11.3%	48.9%	17.6%	4.0%	333	5.4
Atlantic Canada	9.9%	18.0%	46.3%	16.0%	9.8%	124	8.8
GENDER							
Male	19.6%	10.1%	51.1%	16.0%	3.3%	753	3.6
Female	17.0%	13.0%	43.1%	18.9%	8.0%	778	3.5
AGE							
<25	28.9%	6.9%	34.8%	17.6%	11.8%	36	16.3
25-44	23.6%	15.6%	47.3%	9.3%	4.1%	512	4.3
45-64	15.8%	9.9%	50.6%	18.2%	5.4%	581	4.1
65+	6.2%	10.6%	49.4%	28.2%	5.6%	323	5.5
EDUCATION							
High school or less	16.3%	11.6%	38.5%	22.9%	10.6%	333	5.4
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NDP	28.6%	11.4%	42.6%	12.8%	4.6%	316	5.5
Green Party	25.8%	12.4%	33.0%	25.6%	3.2%	79	11.0
Bloc Quebecois	21.4%	8.3%	52.8%	14.7%	2.8%	63	12.4

Methodology

This study was conducted using EKOS' unique, hybrid online/telephone research panel, *Prob/t*. Our panel offers exhaustive coverage of the Canadian population (i.e., Internet, phone, cell phone), random recruitment (in other words, participants are recruited randomly, they do not opt themselves into our panel), and equal probability sampling. All respondents to our panel are recruited by telephone using random digit dialling and are confirmed by live interviewers. Unlike opt-in online panels, *Prob/t* supports margin of error estimates. We believe this to be the only probability-based online panel in Canada.

The field dates for this survey are December 12-20, 2013. In total, 1,531 Canadians aged 18 and over responded to the survey. Of these cases, 1,427 were collected online, while 104 were collected by computer assisted telephone interviews (CATI). The margin of error associated with the total sample is +/-2.5 percentage points, 19 times out of 20.

Please note that the margin of error increases when the results are sub-divided (i.e., error margins for sub-groups such as region, sex, age, education). All the data have been statistically weighted to ensure the sample's composition reflects that of the actual population of Canada according to Census data.