A MACDONALD-LAURIER INSTITUTE PUBLICATION

Philip Cross

PAYING THE PRICE

How weak productivity, stagnant incomes, and persistent inflation are fuelling Canada's affordability crisis

July 2026

TRUE NORTH IN CANADIAN PUBLIC POLICY

TRUE NORTH IN CANADIAN PUBLIC POLICY

Contents

Cover design: Renée Depocas

Executive summary | *sommaire*

Few Canadians can precisely define affordability, but almost everyone knows what it feels like. It shows up in paycheques that no longer stretch as far, bank accounts that are harder to replenish, and the growing sense that everyday necessities are slipping out of reach.

Yet affordability is about more than rising prices or stagnant wages alone. It is the relationship between what households earn, what governments leave them to spend after taxes and transfers, and what that income can actually buy. Canada's affordability crisis stems from a breakdown on all three fronts — and until policymakers address each of them, Canadians will continue to fall behind.

Households are being squeezed from every direction:

- Nominal wage and salary growth has slowed steadily for several years.
- Governments are taking an increasing bite out of incomes as they restrain transfers to households while raising taxes and pension contributions.
- Consumer prices have risen faster than the Bank of Canada's 2 per cent target every year since 2021, with particularly large price hikes for essentials such as housing, food, and gasoline.

These challenges are symptoms of a much larger economic failure. Canada's economy has generated remarkably little new income over the past decade. Real GDP per capita has grown by an average of just 0.6 per cent annually — the weakest performance since the Great Depression — while real household disposable income has risen only 0.8 per cent a year. Without stronger income growth, affordability will continue to deteriorate regardless of temporary fluctuations in inflation.

The evidence also challenges a popular narrative about the source of Canada's affordability crisis. The problem is not that an increasing share of income has flowed to corporate profits or the top 1 per cent. Both have declined modestly over the past decade. Canada's affordability crisis is fundamentally a problem of weak income creation, not income redistribution.

Reversing the decline in affordability requires policies that expand the economy's capacity to generate higher incomes rather than simply reshuffling existing wealth. Governments should focus on four priorities:

- Restoring stronger productivity growth by reversing the decade-long decline in business investment.

- Protecting household incomes by avoiding further increases in taxes and mandatory payroll contributions that reduce disposable income.
- Keeping inflation under control by ensuring the Bank of Canada consistently meets its 2 per cent inflation target.
- Focusing economic policy on growth, recognizing that sustained increases in real incomes — not one-time transfers or redistribution — are the only durable solution to Canada's affordability challenge.

The affordability crisis cannot be solved by treating its symptoms alone. Short-term relief measures may ease pressures temporarily, but only stronger productivity, investment, and income growth can restore lasting improvements in living standards. A generation that expected to enjoy a higher standard of living than its parents instead risks inheriting slower growth, fewer opportunities, and permanently diminished prosperity. The longer governments delay, the harder — and more costly — it will be to reverse the decline. MLI

***Peu de ménages canadiens** peuvent définir précisément ce qu'est l'abordabilité, mais presque tous la ressentent profondément. Elle se manifeste par des salaires désormais insuffisants pour couvrir toutes les dépenses, des soldes bancaires qui s'épuisent rapidement et un sentiment croissant d'inaccessibilité des biens essentiels.*

Pourtant, l'abordabilité, c'est bien plus que la progression des prix ou la stagnation des salaires. Il s'agit de la relation entre ce que les ménages gagnent, ce qui reste dans leurs poches après taxes et impôts et ce que leur revenu leur permet d'acquérir. La crise d'abordabilité au Canada se présente sous trois aspects distincts – et tant que les décideurs ne s'attaqueront pas à chacun d'eux, les ménages peineront à joindre les deux bouts.

Les ménages sont étouffés de toutes les façons :

- *La croissance des rémunérations en dollars courants ralentit depuis plusieurs années.*
- *Les gouvernements accaparent une part toujours plus grande des revenus à travers les transferts moindres aux ménages et la hausse des impôts et des cotisations de retraite.*
- *Depuis 2021, la hausse des prix à la consommation dépasse chaque année la barre des 2 % établie par la Banque du Canada, compte tenu des augmentations démesurées pour les indispensables – logement, aliments et carburant.*

Ces obstacles montrent la gravité de la crise économique que le Canada traverse depuis dix ans : il a généré de nouveaux revenus remarquablement bas. Par habitant, le PIB réel s'est accru de seulement 0,6 % annuellement – la performance la plus faible depuis la crise des années 1930 – alors que le revenu disponible réel n'a augmenté que *de 0,8 %. Sans une croissance forte, l'abordabilité se détériorera encore, quels que soient les sursauts de l'inflation.*

Ces faits contredisent également la notion populaire sur la source de la crise. Le problème ne réside pas dans la part croissante des revenus du 1 % des ménages les plus riches ou, encore, des entreprises. Ces parts déclinent en fait quelque peu au cours de la décennie écoulée. Il y a crise en raison de la faible création de revenus, non de sa redistribution.

Renverser le recul nécessite des politiques aptes à renforcer les capacités de l'économie à générer des revenus élevés et non pas uniquement à repartager la richesse existante. Les gouvernements doivent se concentrer sur les quatre priorités que voici :

- *Restaurer la forte croissance de la productivité en inversant la baisse décennale des investissements des entreprises.*
- *Préserver les revenus des ménages en évitant les nouvelles hausses d'impôts et de cotisations sociales obligatoires, lesquelles réduisent le revenu disponible.*
- *Maîtriser l'inflation en veillant à ce que la Banque du Canada adhère à son objectif de 2 %.*
- *Orienter la politique économique vers la croissance, en admettant que seules les augmentations durables des revenus réels — et non les transferts ponctuels ou une redistribution — représentent la solution pérenne au problème du Canada.*

Pour remédier à une crise, il ne suffit pas de traiter les symptômes. Si les mesures à court terme peuvent temporairement atténuer les pressions, seule l'amélioration décisive de la productivité, de l'investissement et des revenus peut restaurer durablement la progression du niveau de vie. Une génération qui s'attendait à un avenir meilleur que la précédente pourrait hériter d'une croissance économique plus faible, de moins d'occasions et d'une prospérité menacée à long terme. Plus les gouvernements tardent à agir, plus il sera ardu — et onéreux — d'enrayer cette tendance à la baisse. **MLI**

Introduction

There is a consensus that Canada is in the grips of an affordability crisis. However, the concept of affordability is vague, implying the prices of many goods and services are out of reach for the average consumer without specifying whether this results from prices being too high or incomes too low. More broadly, affordability has become a catchword for people to express insecurity about the economy and their jobs, with the expectation governments should address every economic problem by transferring more money to households.

This paper studies Canada's affordability crisis by examining how real incomes have been squeezed since 2021 by slower nominal income growth and price inflation that has exceeded the Bank of Canada's 2 per cent target. Moreover, Canadians cannot avoid higher prices for essential goods such as food, gasoline, and housing; as these essentials consume a growing share of household spending, they displace discretionary purchases. Government fiscal policies made people's paycheques shrink even more because households had to send more money to governments, especially through higher contributions to the Canada Pension Plan. Households have responded to the squeeze on incomes by trying to save more and borrowing less, a textbook response to financial stress.

Real incomes of Canadians have declined

Less affordability is another way of saying real incomes are insufficient to purchase goods and services whose prices often are rising. Real Gross Domestic Product (GDP) per capita, the broadest measure of incomes in Canada, shrank by 1.2 per cent from its peak of $61,020 in the second quarter of 2022 to $60,298 early in 2026 (Statistics Canada 2026a). Compared with its pre-pandemic high of $59,905 in the second quarter of 2019, real GDP per capita has edged up only 0.7 per cent in nearly seven years, an abysmal annual growth rate of close to

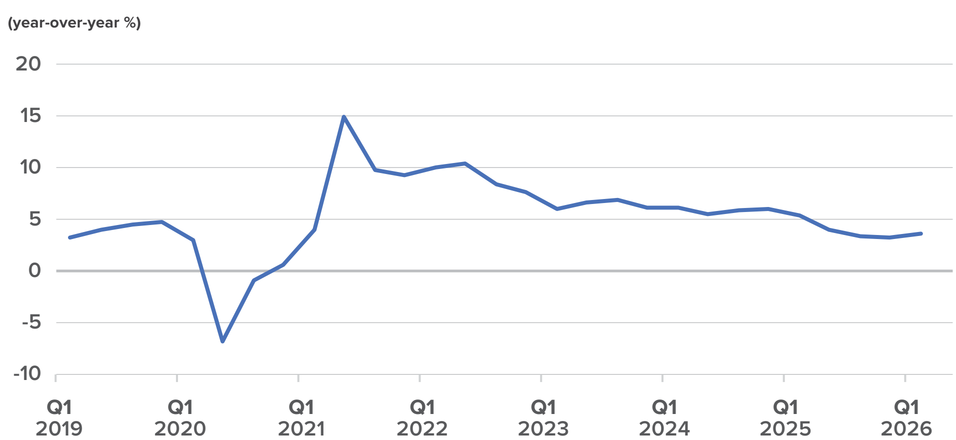
FIGURE 1: Real GDP per capita

Sources: Statistics Canada table 36-10-0104-01, 17-10-0009-01

zero (see **Figure 1**). As a result, the Canadian economy experienced its weakest decade of GDP growth since the Great Depression of the 1930s.

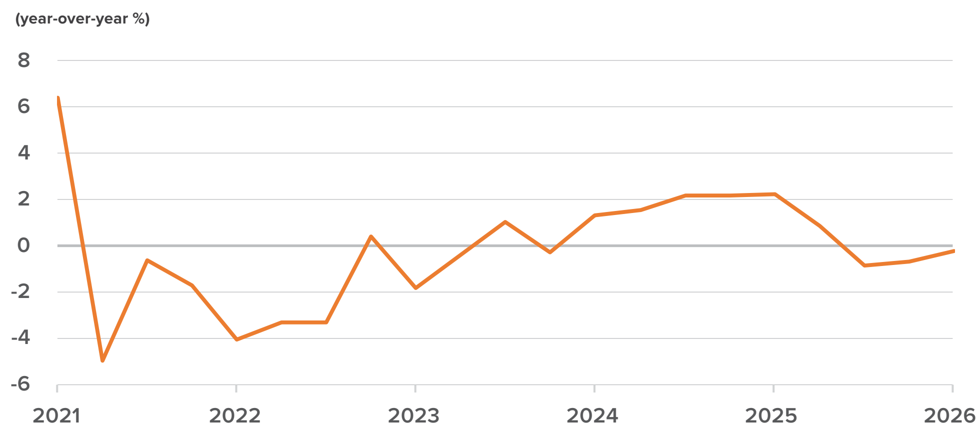
The slowdown in overall economic growth resulted in a steady deceleration of compensation paid to employees (which is mostly wages and salaries). From a peak rate of increase of over 10 per cent in 2021 and 2022 as employees returned to their jobs, employee compensation slowed steadily to just 3.5 per cent in the most recent four quarters (see **Figure 2**). While the initial slowdown after 2022 was inevitable after the pandemic shock receded, the deceleration continued and accelerated into 2025 and 2026.

FIGURE 2: Employee compensation



Source: Statistics Canada table 36-10-0112-01

FIGURE 3: Real household disposable income per capita



Source: Statistics Canada data table 36-10-0112-01 and 36-10-0106-01

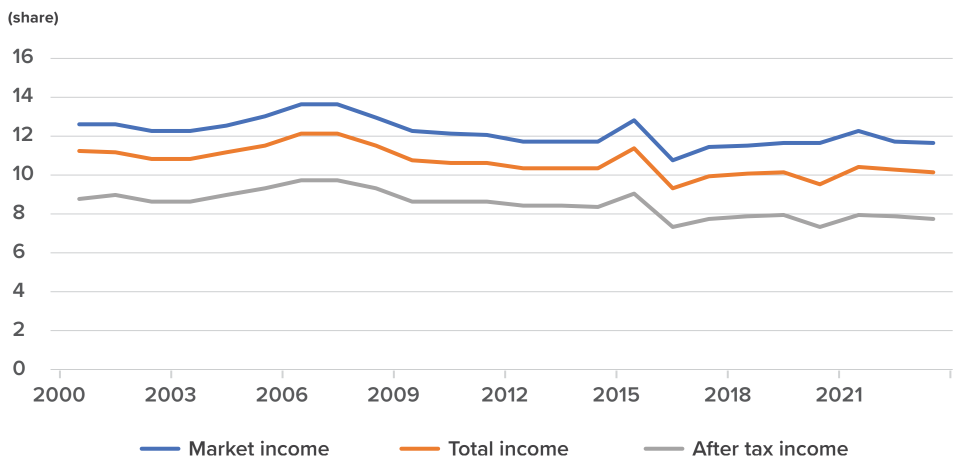
The average Canadian's take-home income has fared little better than the economy's overall income growth. The growth of per capita[1] real disposable incomes (nominal incomes after adjusting for government transfers and direct taxes and deflated by the price index for household spending) early in 2026 was 2.7 per cent below where it was five years earlier, including a 0.2 per cent dip in the last four quarters (see **Figure 3**). Compared to its pre-pandemic level, per capita disposable income has risen only 4.4 per cent in seven years, an annual rate of 0.6 per cent.

The affordability crisis for Canadian households is rooted in the weakness of our overall incomes in the economy in recent years, not a skewing of income distribution to greedy corporations or the top 1 per cent of income earners.[2] The reality is that the distribution of overall GDP actually shifted from corporate profits to labour income over the past decade, while the share of the top 1 per cent has fallen steadily since 2008.[3]

In other words, the main reason many Canadians are struggling to afford things isn't because the richest people or corporations are taking a bigger share of the money. It's because the country's economy hasn't been generating enough income overall.

In Canada, the share of labour income edged up from 50.1 per cent in 2014 to 50.2 per cent in the first quarter of 2026 while profits were unchanged at 27.9 per cent (the remaining incomes go to farmers, unincorporated businesses, and indirect taxes). Weak personal incomes clearly originate in slower overall income growth, and not a larger share being absconded by corporations.

FIGURE 4: Share of income of top 1 per cent income



Sources: Statistics Canada table 11-10-0055-01

Nor are lower incomes for the average Canadian due to the rich taking a larger portion of incomes. By any measure, the top 1 per cent's share of incomes declined from its peak in 2008 (see **Figure 4**). Their share of market income fell from 13.6 per cent in 2007 to 11.6 per cent in 2023 (the latest taxable income data available from Statistics Canada). After adjusting for government transfers and taxes paid to governments, the share of the top 1 per cent declined from 9.7 per cent in 2007 to 7.7 per cent in 2023. The downward trend persisted for most of the period, with the exception of a spike in 2015. Furthermore, people often do not stay in the top 1 per cent of incomes for long periods; in recent decades, 30 per cent consistently are in this income groups for only one year, and just half remain in it after five years.

Nominal wages and salaries have decelerated

Lower household disposable incomes reflect a number of factors. Earned income growth fell steadily, governments cut back on transfers to households and raised their take from paycheques, while price increases were nearly double the Bank of Canada's inflation target. This paper examines each of these factors.

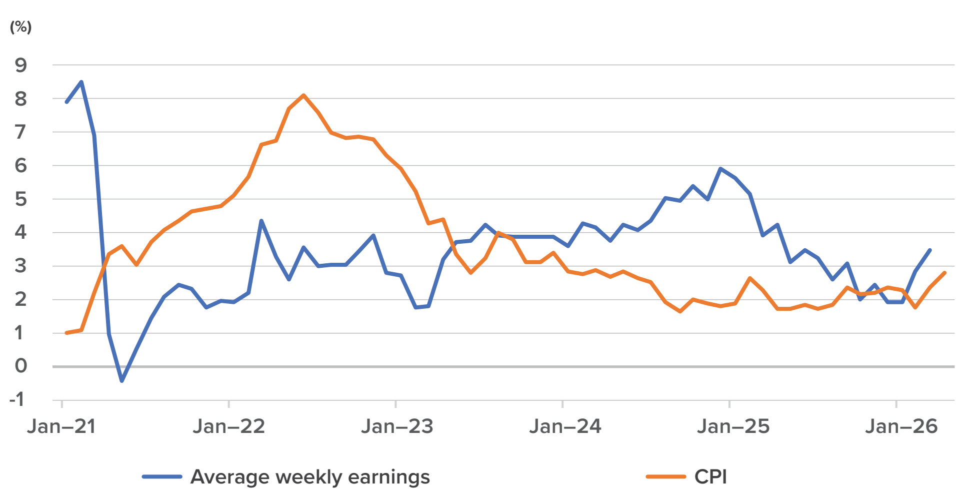
Slower income growth played a pivotal role in Canada's affordability crisis. As a deputy governor of the Bank of Canada noted recently, "deep down

Canada's affordability problem is really a productivity problem … If we want to make things more affordable, we need to raise our income. And the way to grow our income is by increasing productivity." (Vincent 2025)

Labour market conditions have softened, although job losses were not as widespread as feared when US President Donald Trump imposed his "Liberation Day" tariffs on several Canadians exports in April 2025. Job growth eased slightly from 1.9 per cent in 2024 to 1.4 per cent in 2025. The loss of some high-paying jobs in manufacturing industries such as autos and primary metals magnified the negative impact on incomes.

While overall job growth has held up despite Trump's policies, the growth of total wages and salaries decelerated from 6.0 per cent to 3.1 per cent. Average weekly earnings slowed from a peak of 5.9 per cent in early 2025 to below 2.0 per cent just over a year later, falling below price inflation for the first time since 2023, before a small recovery in March (see **Figure 5**). The abrupt slowdown in wages was led by the loss of high-paying manufacturing jobs in our auto, steel and aluminum industries.

FIGURE 5: Weekly earnings and Consumer Price Index (CPI)



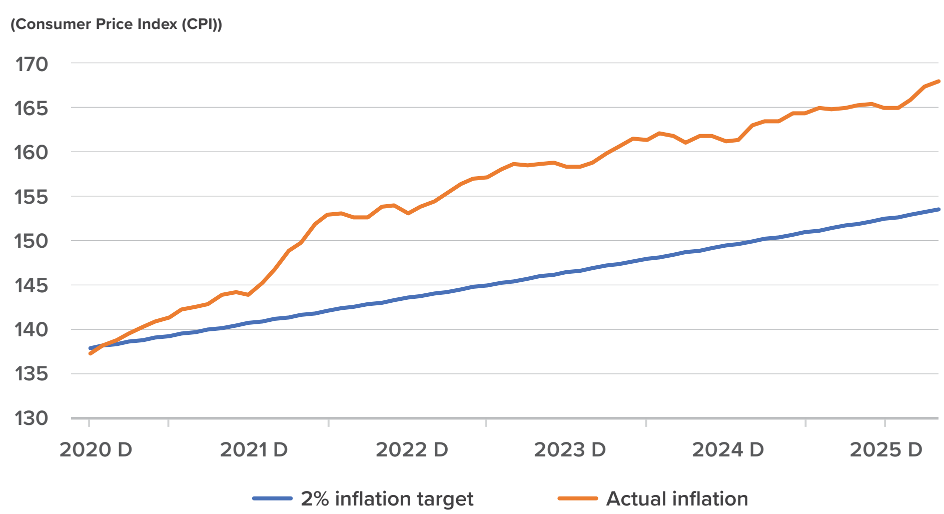
Source: Statistics Canada data tables 14-10-0220-01 and 18-10-0004-01

Inflation has exceeded the Bank of Canada's target

Along with weak nominal income growth, higher prices contributed to the cost of living becoming less affordable. While headline inflation moderated from its peak rate of 8 per cent in 2022 to 2.8 per cent in early 2026, a lower rate of increase does not reverse previous hikes that reduced the purchasing power for households (Fast 2026).

The Consumer Price Index (CPI) has risen by 26.9 per cent as of April 2026 since inflation took off starting in 2021. This is well above the 15.0 per cent increase if the Bank of Canada had achieved its stated target of an average of 2 per cent price inflation (see **Figure 6**). Using the price of consumer goods and services from GDP (which differs from the CPI in its treatment of housing costs, among other factors), the gap between actual price increases and the 2 per cent target is the almost the same (with prices up 22.9 per cent).

FIGURE 6: Inflation — actual and target



Source: Statistics Canada data table 18-10-0004-01

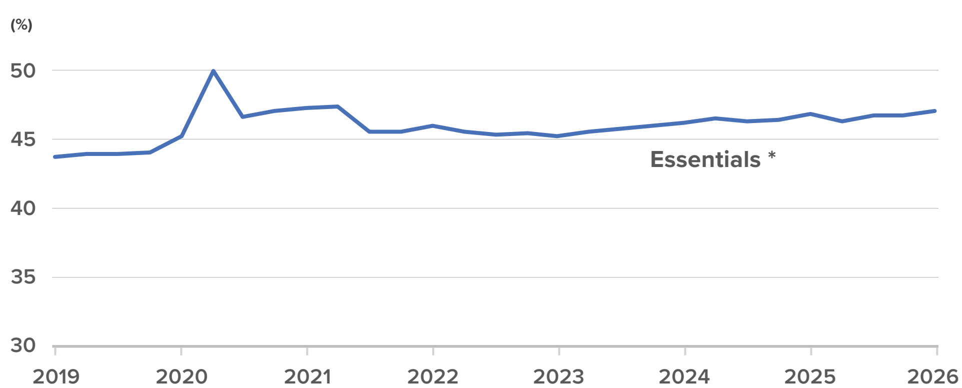
It is remarkable how the Bank of Canada has treated its ongoing failure to achieve its inflation target. The quote from a Bank of Canada deputy governor cited earlier attributes all the slowdown in real incomes to faltering productivity, while ignoring the contribution of inflation running at nearly twice its targeted rate. While central banks treat these repeated misses as the result of a series of unfortunate one-off events,[4] households regard high prices as the primary cause of the affordability crisis that has made the cost of living the number one concern of Canadians. Oil prices hovering near US$100 a barrel for an extended period in 2026 promise another year of above target inflation, due to the direct impact on gasoline and home heating oil and the indirect impact over time from rising input costs for everything from air transport to food.

Higher prices for essentials are unavoidable

Compounding the pain from inflation are higher prices for essential goods and services that most people must buy. These essentials include food, housing, healthcare, and operating transportation equipment (mostly gasoline). Since the start of 2021, the cost of these essential items has risen by 30.7 per cent, compared with 22.9 per cent for overall prices (Statistics Canada 2026b). As a result, households in the first quarter of 2026 allocated 47.0 per cent of their spending to these essential items, the most since the pandemic in 2020 and almost three percentage points more than in 2019 (see **Figure 7**). The rising cost of essentials means less money is left over for discretionary spending on durable goods, entertainment, travel, and restaurants.

Not surprisingly, people with low incomes struggle the most to buy essential goods and services. A survey by the Institut de la Statistique du Québec (2026) revealed that 61.0 per cent of low-income households could not afford all their basic needs in 2024, with 32.7 per cent of lower middle class

FIGURE 7: Essential share of consumer spending



Source: Statistics Canada table 36-10-0107-01

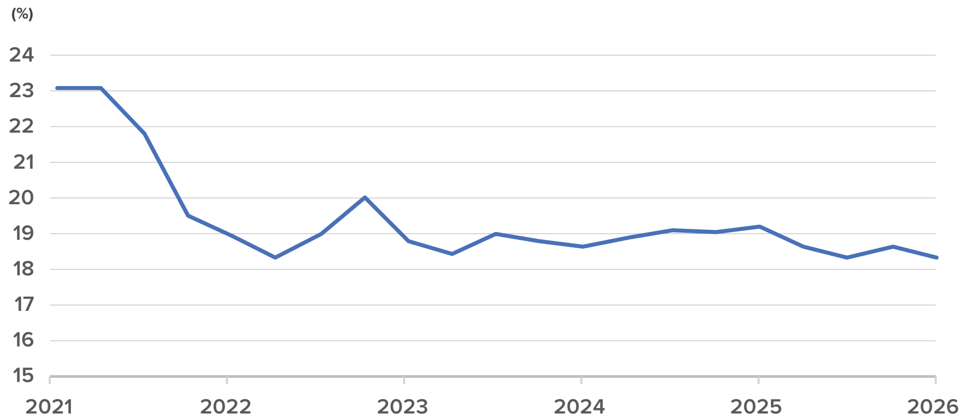
** Food, shelter, health care and the operation of transportation equipment* households also struggling for these essentials (the share drops to 15.0 per cent and 7.5 per cent for the two highest income groups).

The movement to "buy Canadian" and "boycott American products" in response to the Trump tariff war is a well-intentioned protest but does not help the affordability crisis. Popular demand to boycott US products led 16.6 per cent of businesses in Canada to adopt marketing strategies promoting Canadian products, and 14.2 per cent reported higher sales of these products (Statistics Canada 2026). While a testament to patriotic fervor, these movements are likely to be expensive for households. Canadians presumably bought imports because they were less expensive or provided more value. Purchasing Canadian substitutes may be patriotic, but higher prices for these products leaves less money for other purchases. This reduces purchasing power and ultimately lowers real incomes in Canada, hardly the best way to punish Trump for his tariffs. Premiers are adept at pulling American liquor bottles off the shelves of stores literally overnight but have failed for decades to deliver on repeated promises to lower barriers to interprovincial trade within Canada (something they promised to accelerate in the immediate aftermath of Trump's Liberation Day tariffs, but which they refuse to move on decisively).[5] A better way is to raise the prices Americans pay for our products (diverting our energy exports overseas, for example, helps lower the discount Americans receive for our oil and gas) and leaving Canadians to choose whether or not to buy American products, not forcing Canadians to pay more.

Government transfer payments slowed

Government transfers and taxes have aggravated the decline in household take-home income, despite government promises to help with affordability. For example, the federal budget for 2024 trumpeted measures to make housing, groceries and child care more affordable, without notable impact (Government of Canada 2024). Transfers from governments as a share of disposable income fell steadily after 2021 to 18.1 per cent in the first quarter of 2026 (see **Figure 8**). Initially, this drop was due to a winding down of extraordinary government support programs implemented during the pandemic, such as the Canada Emergency Response Benefit, the Canada Emergency Student Benefit, a doubling of the GST tax credit, and a hike in the Canada Child Benefit of $300

FIGURE 8: Government transfers share of take-home pay



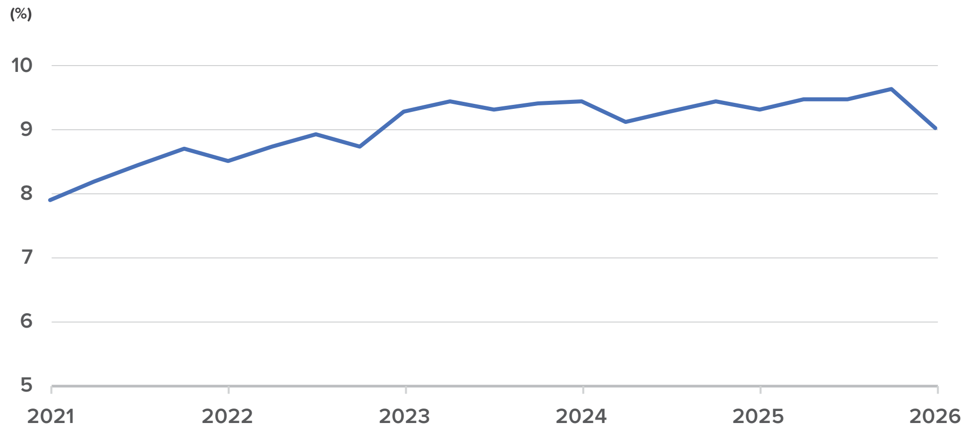
Source: Statistics Canada data table 36-10-0112-01

per child. However, transfers have continued to shrink as a share of income even as a weaker economy should have elicited more government support to households. Government transfer payments jumped briefly to a peak rate of 8 per cent growth early in 2025, reflecting $250 cheques sent to working Canadians. Along with a two-month suspension of the Goods and Services Tax (GST), this provoked Finance Minister Chrystia Freeland's resignation to protest what she called "costly political gimmicks" (Reuters 2024). With the expiry of these temporary support programs, government transfer payments to households in the first quarter of 2026 were 2.7 per cent below the level of a year earlier despite slower income growth that should have triggered the automatic stabilizers within the tax and transfer system (that pay more in unemployment benefits as job losses mount while lower incomes reduce income tax collections).

Taxes and transfers to governments continued to rise

While transfer payments from governments to households decelerated after 2021, transfers from households to governments rose steadily over the last five years from 29.7 per cent to 33.3 per cent of household primary income[6] (Statistics Canada 2026b). Transfers to governments in the last two years rose by 9.8 per cent, much faster that the growth of incomes. The government's increased take from paycheques was led by sizeable hikes in contributions to

FIGURE 9: Social insurance contributions share of disposable income



Source: Statistics Canada data table 36-10-0112-01

social insurance plans, mostly the Canada Pension Plan. Personal income taxes also showed few signs of slowing, rising 12.4 per cent over the last two years compared with 9.8 per cent in the previous two years.

Social insurance contributions mandated by governments rose by 57.9 per cent over the last five years ending in 2025. These hikes reflected the 2018 enhancement to the Quebec/Canada Pension Plans (Q/CPP) requiring both increased contribution rates and a higher maximum contribution to the Q/CPP. Higher pension plan contributions reduced household disposable income by a full percentage point since 2021 (see **Figure 9**). At $173.4 billion, the amount of social insurance contributions were nearly half as large as all personal income taxes in 2025, which totaled $418.7 billion.

Of course, this is not a complete accounting of all the benefits households receive from governments: education and healthcare, for example, are not transfer payments to households. However, calculating net transfers between households and governments exposes the exaggerated claims of governments that programs such as the federal cheques of $250 to households in 2024 are helping with the affordability crisis, when in reality they have done little or nothing to increase affordability over time. Meanwhile, governments are taking an increasing share of household paychecks. For example, the Trudeau government in 2024 claimed its $250 Working Canadians Rebate in 2024 was designed for "putting money directly into the pockets of the middle-class –

those who have worked hard to beat inflation," while the companion temporary two-month GST/HST exemption was "so Canadians can buy essentials like groceries, snacks, and kids clothing" (Prime Minister of Canada 2024).

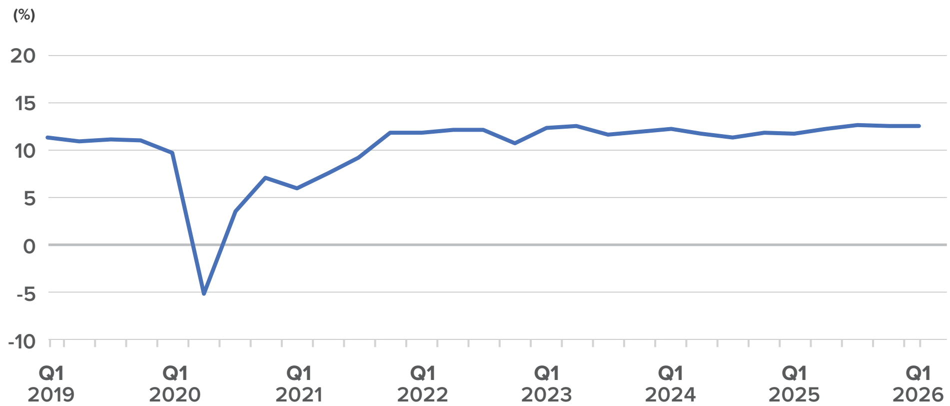
One of the criticisms of the 2018 overhaul of the Q/CPP was the timing of higher contributions could coincide with and therefore aggravate a slump in income growth. This is exactly what occurred; restoring a full percentage point to disposable incomes would have helped households facing an affordability crisis, especially young people who will not see the benefit of higher pensions for decades but face the immediate problem of being unable to buy a home and start a family. Higher pension plan contribution should only be implemented when the economy is booming, as happened in the late 1990s, not when it is faltering, as was the case for most of the past decade.

Governments now acknowledge that the increase in contributions to the Q/CPP were unnecessarily high. Actuarial studies such as conducted by the Office of the Superintendent of Financial Institutions (2026) found these pension plans were overfunded, and the contribution rate for the QPP was cut in 2026 followed by the rest of Canada in 2027. While this resulted in a 5.6 per cent drop in pension contributions in the first quarter of 2026, this is small consolation for households who for years have been paying too much even as they struggled to pay for their basic needs.

Net transfers from households to governments have risen since the pandemic

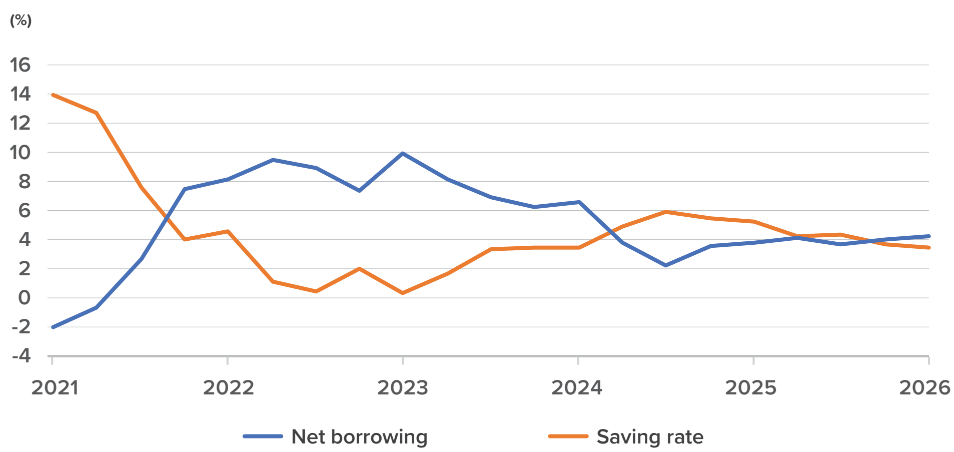
Despite numerous programs intended to benefit households, governments in reality have increased their burden on households in recent years by slowing transfer payments while raising taxes and pension contributions.[7] Households invariably transfer more money to governments (mostly in the form of personal income taxes and pension plan contributions) than they receive from programs such as employment insurance and income support for the elderly, apart from the second quarter of 2020 when the COVID-19 pandemic peaked. The net transfer from households to governments represented 12.5 per cent of household primary income in the first quarter of 2026, up over a full percentage point from its pre-pandemic level of 11.1 per cent in 2019 (see **Figure 10**).

FIGURE 10: Net transfers from households to government (% of income)



Source: Statistics Canada table 36-10-0112-01

FIGURE 11: Household disposable income



Source: Statistics Canada data table 36-10-0112-01

Households are more cautious managing their finances

Households have internalized their shrinking purchasing power into more careful management of their finances by saving more and borrowing less. Higher savings and lower borrowing are typical of how households react when their financial situation is deteriorating.[8] The personal savings rate trended up from a low of 0.4 per cent in early 2023 to an average of 4.0 per cent in the past year (see **Figure 11**). However, it is notable that the savings rate has declined in recent quarters as households found it increasingly difficult to set aside money from incomes that were increasingly squeezed by lower wages and higher prices. Meanwhile, net borrowing as a share of household disposable income moderated from its peak of 10.0 per cent at the height of the housing bubble in 2023 to 4.1 per cent in the past four quarters. By comparison, the pre-pandemic savings rate was 2.1 per cent and the borrowing rate was 7.3 per cent in 2019.

Affordability may have other meanings

There is a possibility that the preoccupation of households with "affordability" reflects people's broader insecurity about their economic well-being. An April 2026 poll found that 40 per cent of Canadians feared job losses in their household amid ongoing concerns about tariffs imposed by the United States, the deployment of Artificial Intelligence, rising energy prices due to wars in the Middle East, and the popular narrative that income growth is hoarded by an elite few (Postelnyak 2026).

Another factor stoking concerns about falling incomes originates in the unsustainable boost governments gave to disposable incomes during the pandemic in 2020. The lesson many households and government leaders seemed to have learned is that government transfers are a reliable and sustainable source of income growth. It is forgivable that some households reached this conclusion, since governments never explained this largesse was a one-time event that, in the absence of higher productivity, would eventually be paid for by some combination of government spending cuts, tax hikes, or higher inflation. Some households today, faced with lower incomes, reflexively expect more cheques from governments. The reaction of the Carney government to the affordability "crisis" shows this mentality remains ingrained, with a temporary 10-cent-a-litre reduction of its excise tax on gasoline and higher GST rebates for lower-income households.

Another driver feeding the perception of declining affordability is that Canada's high cost of living compared with other countries has become a more visible reality as cross-border population flows surged in recent years. The return to normal travel flows after the pandemic means more Canadians experience first-hand how much lower prices are in other countries, especially the United States. Meanwhile, the large influx of immigrants since 2021 feeds this narrative as these new arrivals are confronted by Canada's high cost of living. An Institut de la statistique du Québec (ISQ) survey of Quebecers found that 42.2 per cent of people living in poverty in that province were immigrants who had lived in Canada for five years or less (ISQ 2026).

Governments can best address the affordability crisis with policies that address our chronic low level of productivity, which is the main source of our faltering income growth in recent years. For years, economists have recommended that governments do more to raise business investment. As a Bank of Canada deputy governor recently noted, "when you compare Canada's recent productivity record with that of other countries, what really stands out is how much we lag on investment," which has declined since 2014 (Rogers 2024). There are a wide range of policies that would stimulate investment, including better regulation, tax reform that makes Canada's corporate taxes more attractive to foreign investors, opening the Canadian economy to more competition, and of course lowering internal trade barriers (which once again was promised by the premiers after Trump imposed tariffs but never implemented).

Without higher investment and improved productivity, attempts by government to make life more affordable with temporary programs (such as Alberta's recent announcement that it will send $100 cheques to households in that province) will have no lasting effect besides increasing their budget deficits and stoking inflationary pressures, the very opposite of their intended impact. Affordability may seem to be a problem that can be addressed with short-term stimulus, but in reality it highlights Canada's chronic inability to expand GDP and life household incomes.

Conclusion

Most people would agree that Canada is in the midst of an affordability crisis without being able to precisely define what that means or pinpoint its causes. This paper showed how declining affordability reflects slowing nominal income growth, governments taking a growing share of net transfers from household incomes, and inflation consistently exceeding the Bank of Canada's target. The combination of these factors has lowered real incomes and triggered Canada's affordability crisis, not a redirection of income flows to corporations or upper-income earners.

While Canadian jobs and incomes over the past year were hampered by Trump's tariff war, governments for years have taken a rising share of incomes in the form of higher taxes and pension contributions, while tolerating above-target inflation. Compounding the squeeze on household budgets, prices increased for essentials that households have to pay. Most recently, governments have restrained transfers to households over the past year even as economic growth slowed.

Reversing the decline in affordability requires policies that expand the economy's capacity to generate higher incomes rather than simply reshuffling existing wealth. Governments should focus on four priorities:

- Restoring stronger productivity growth by reversing the decade-long decline in business investment.
- Protecting household incomes by avoiding further increases in taxes and mandatory payroll contributions that reduce disposable income.
- Keeping inflation under control by ensuring the Bank of Canada consistently meets its 2 per cent inflation target.
- Focusing economic policy on growth, recognizing that sustained increases in real incomes — not one-time transfers or redistribution — are the only durable solution to Canada's affordability challenge.

Quick fixes might temporarily dull the pain of high living costs, but they won't cure the disease. True, long-term prosperity will only return when governments focus on driving productivity, attracting business investment, and raising wages. Right now, a whole generation is watching their dream of a better life slip away, facing a future of fewer opportunities and stagnant growth. If policymakers don't shift their focus soon, reversing this economic slide is going to become vastly more difficult — and far more expensive. MLI

About the author

Philip Cross is a senior fellow at the Macdonald-Laurier Institute. Prior to joining MLI, Cross spent 36 years at Statistics Canada specializing in macroeconomics. He was appointed chief economic analyst in 2008 and was responsible for ensuring quality and coherency of all major economic statistics. During his career, he also wrote the "Current Economic Conditions" section of the Canadian Economic Observer, which provides Statistics Canada's view of the economy. He is a frequent commentator on the economy and interpreter of Statistics Canada reports for the media and the public. He is also a member of the CD Howe Business Cycle Committee. MLI

References

Fast, Ed. 2026. "Opinion: Canada needs a war on inflation." *Financial Post*, April 15, 2026. Available at https://financialpost.com/opinion/canada-needs-war-inflation.

Finlayson, Jock, and Steven Globerman. 2025. *Canada's Changing Immigration Patterns, 2000–2024*. Fraser Institute. Available at www.fraserinstitute.org/sites/default/files/2025-07/canadas-changing-immigration-patterns-2000-2024.pdf.

Government of Canada. 2024. *Budget 2024*. Available at https://www.budget.canada.ca/2024/report-rapport/budget-2024.pdf.

Institut de la Statistique du Québec. 2026. *Les préjugés envers les personnes en situation de pauvreté au Québec*. Available at https://statistique.quebec.ca/fr/communique/prejuges-envers-personnes-situation-pauvrete-quebec.

Kiladze, Tim. 2026. "How Canada became poorer than Alabama." *The Globe and Mail*, February 21. Available at https://www.theglobeandmail.com/business/article-out-of-nowhere-canada-became-poorer-than-alabama-how-is-that-possible/.

Office of the Superintendent of Financial Institutions. 2026. *Thirty-Second Actuarial Report on the Canada Pension Plan*. Available at https://www.osfi-bsif.gc.ca/en/oca/actuarial-reports/actuarial-report-32nd-canada-pension-plan-revised-version.

Postelnyak, Mariya. 2026. "Bracing for layoffs, these Canadians are cutting back and planning ahead." *The Globe and Mail*, April 15. Available at https://www.theglobeandmail.com/investing/personal-finance/article-layoffs-job-loss-household-finance/.

Prime Minister of Canada. 2024. *More money in your pocket: A tax break for all Canadians and the Working Canadians Rebate*. Available at: https://www.pm.gc.ca/en/news/news-releases/2024/11/21/more-money-your-pocket-tax-break-all-canadians-and-working-canadians-rebate.

Reuters. 2024. "Full text: Canadian finance minister's resignation letter to PM Trudeau." December 16. Available at https://www.reuters.com/world/americas/full-text-canadian-finance-ministers-resignation-letter-pm-trudeau-2024-12-16/.

Rogers, Carolyn. 2024. "Time to Break the Glass: Fixing Canada's Productivity Problem." Bank of Canada. Remarks by Carolyn Rogers, March 26. Available at https://www.bankofcanada.ca/2024/03/time-to-break-the-glass-fixing-canadas-productivityproblem/.

Statistics Canada. 2026a. Table 36-10-0104-01. Gross domestic product, expenditure-based, Canada, quarterly, seasonally adjusted.

Statistics Canada. 2026b. Table 36-10-0112-01. Current and capital accounts – Household, Canada, quarterly, seasonally adjusted.

Statistics Canada. 2026c. Table 14-10-0220-01. Employment and average weekly earnings (including overtime) for all employees, by industry, monthly, seasonally adjusted.

Statistics Canada. 2026d. Table 17-10-0009-01. Population estimates, quarterly.

Statistics Canada. 2026e. Table 18-10-0006-02. Consumer price index, monthly.

Statistics Canada. 2026f. Canadian Survey of Business Conditions, second quarter 2026. The Daily, May 27.

Tombe, Trevor. 2025. *Breaking Barriers: How provinces can drive Canada's prosperity by unlocking trade and labour mobility*. Macdonald-Laurier Institute, February. Available at macdonaldlaurier.ca/wp-content/uploads/2025/02/20250220_Internal-trade-barriers-Tombe-PAPER-NEW-FINAL.pdf.

Vincent, Nicolas. 2025. "Toward a virtuous circle for productivity. Remarks to the Association des économistes québecois and CFA Québec." Bank of Canada, November 19. Available at https://www.bankofcanada.ca/2025/11/toward-a-virtuous-circle-for-productivity/.

Endnotes

1 Income growth needs adjusting for the rapid expansion of Canada's population in recent years. Population growth increased from 1.1 per cent in 2021 to a peak of 3.0 per cent in 2023, as immigration jumped from an annual average of 4 per cent between 2000 and 2015 to 15.1 per cent from 2016 to 2024 (Finlayson and Globerman 2025: 11). Population growth slowed to 0.2 per cent in 2025 after the government slashed the intake of immigrants.

2 The labour economist Jim Stanford erroneously tried to link the two, claiming that half of GDP goes to "corporate profits and investment income, and they flow to the wealthy as shareholders" (Kiladze 2026).

3 The share of corporate profits and the top 1 per cent did increase in the United States in recent years, which may have fuelled the false narrative that the same forces existed in Canada.

4 These include the disruption of supply chains from the COVID-19 pandemic, and wars in Ukraine and the Middle East, which boosted energy prices.

5 See the *Breaking Barriers*, an MLI paper by Trevor Tombe (2025) for insights on how most of the benefits of freer interprovincial trade could be reaped by targeting just a few products.

6 Household primary income is employee compensation plus income earned from farming and small businesses.

7 Transfer payments to household include programs such as Employment Insurance benefits, Old Age Security, and the Guaranteed Income Supplement. They do not include equalization payments, which are sent to other levels of government and not directly to households.

8 For example, during the pandemic the savings rate hit 14 per cent in 2021 while net borrowing fell outright.

GOOD POLICY
is worth fighting for.

WHAT PEOPLE ARE SAYING ABOUT **MLI**

MLI has been active in the field of indigenous public policy, building a fine tradition of working with indigenous organizations, promoting indigenous thinkers and encouraging innovative, indigenous-led solutions to the challenges of 21st century Canada.

– The Honourable **Jody Wilson-Raybould**

I commend Brian Crowley and the team at **MLI** for your laudable work as one of the leading policy think tanks in our nation's capital. The Institute has distinguished itself as a thoughtful, empirically based and non-partisan contributor to our national public discourse.

– The Right Honourable **Stephen Harper**

May I congratulate **MLI** for a decade of exemplary leadership on national and international issues. Through high-quality research and analysis, **MLI** has made a significant contribution to Canadian public discourse and policy development. With the global resurgence of authoritarianism and illiberal populism, such work is as timely as it is important. I wish you continued success in the years to come.

– The Honourable **Irwin Cotler**

MACDONALD-LAURIER INSTITUTE

TRUE NORTH IN CANADIAN PUBLIC POLICY

323 Chapel Street, Suite 300,
Ottawa, Ontario K1N 7Z2
613-482-8327
info@macdonaldlaurier.ca

macdonaldlaurier.ca