

Canadians are richer than they think

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It seems every day Canadians awake to another sober message from a bank economist or cabinet minister – one part scolding, one part warning, all very serious. We are spending too much relative to our earnings. We are overextending ourselves when we buy houses, and we are even taking on more debt than our supposedly more spendthrift American cousins. The priests of commerce are telling us we are sinners.

But lurking behind the dire headlines about consumer debt and our creeping profligacy is a strange new reality: The average Canadian has quietly become richer than the average American. Over the past five years, net worth per Canadian household has exceeded net worth per American household (total combined value of liquid and real estate assets minus debt) for the first time.

Currently, the average Canadian household is more than \$40,000 richer than the average American household. (According to the latest Environics Analytics WealthScapes data, the average household net worth in Canada was \$363,202 in 2011; in the U.S. it was \$319,970.) And these are not 60-cent dollars, but Canadian dollars more or less at par with the U.S. greenback. Furthermore, these figures ignore public-sector (government) debt that presumably people on both sides of the border or their children will some day have to pay. Such debt is higher in the U.S. as a percentage of GDP than it is in Canada.

Has Canada experienced a sudden surge of productivity or entrepreneurial genius? Not exactly. Our resource sector is certainly firing on all cylinders, but the biggest reasons for Canadians' deep pockets relative to Americans' in recent years are the related phenomena of the 2008 economic crisis and the collapse of the U.S. housing market. Because house prices in the U.S. have plunged, the real estate held by Canadians is now much more valuable than that held by Americans (worth over \$140,000 more on average). In fact, Canadians hold more than twice as much real estate as Americans and, once mortgages are factored in, have almost four times as much remaining equity in their real estate. Americans' liquid (non-real estate) assets are still greater than Canadians'.

But if we cannot take full credit for our greater wealth on paper, nor should we be too badly excoriated for our greater levels of household debt. Consumer confidence north of the border has been justifiably stronger. (Hard-hit Americans are, reasonably, more fearful.) More Canadians also simply have increased room to borrow; Americans are more maxed out – not least on those cumbersome mortgages.

Canadians have traditionally been the cautious, fiscally conservative society, watching American economic dynamism from a safe remove (and subsisting on a small cut of the

branch-plant spoils). For us, paying off the mortgage was once the equivalent of forgiveness for our acquisitive sins. Our public policies were more prudent than the U.S. policy of allowing home owners to deduct the interest on mortgage debt. Canadian leaders rejected mortgage interest deductibility and fortunately Canadians only briefly embraced the subprime mortgages that are still a huge factor in Americans' fiscal woes.

A decade and a half ago, our leaders fretted about "brain drain" as some of our best young grads migrated south toward the land of opportunity instead of settling for our safer economic landscape – with more unions, more government security blankets (like medicare and public pensions) and, of course, higher taxes and more regulation. But after the 2008 crisis, when U.S. financial institutions went from dynamic to dangerous, the drab safety of Canadian fiscal conservatism began to cut a more pleasing figure.

For the moment, it seems that the risk-averse Canadian tortoise has the lead in the race against the risk-taking American hare, who has singed his feet on his rocket pack. How Canadians will respond to this at the household level remains to be seen. Are we naively careering toward American-style (pre-crash) financial behaviour with loaded credit cards, second and third mortgages, and a lax approach to savings in a headlong pursuit of materialism, hedonistic pleasures, and instant gratification? Or does it say something about our abiding national character that we have so many sober souls in positions of power who will mete out regular scoldings like the clergy in pulpits of old and do things like change our mortgage rules to protect us from ourselves?

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