Wages vs Inflation

For the last few decades, inflation has been something that could more or less be ignored, running at a little over 2%. As Figure 1 shows, average wages in Canada have historically kept pace with the cost of living, preserving the purchasing power of salaries. Although there are many reasons why inflation was so benign, central bankers have long prided themselves on their ability to control and fine-tune the cost of living.

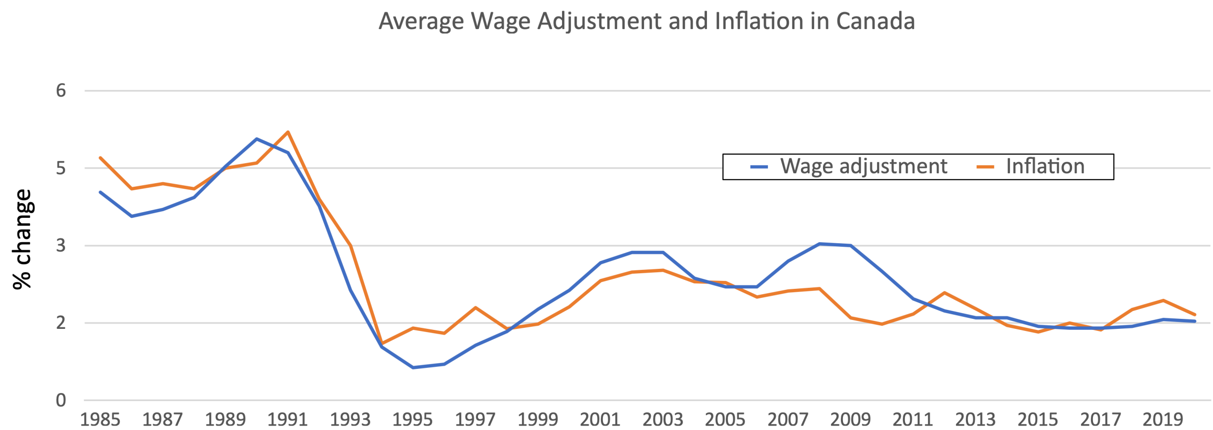

Figure 1

But a trip to the supermarket – and the data in Figure 2 – show that this has ceased to be the case, and even central bankers are no longer using words like “temporary” and “transitory” to describe the situation. The latest readings of CPI are running at 7% in the US, and 4.8% in Canada. (The discrepancy is largely due to differences in methodology – US CPI allows for used-car prices – if these are included in Canada, then CPI here is also running at 7%.)

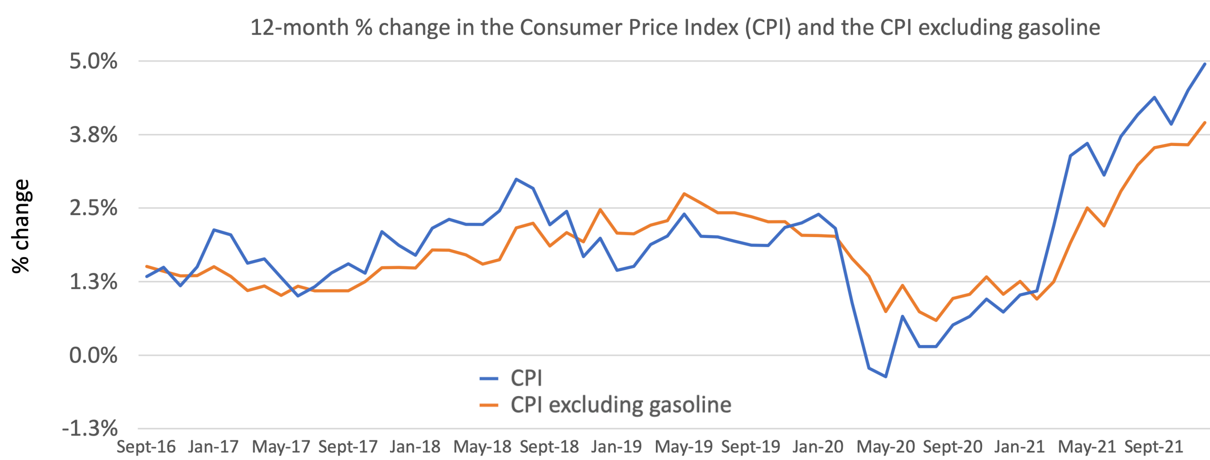

Figure 2

What is the effect on real salaries? Well, if inflation were as temporary and transitory as central bankers initially made out, then not much. But persistent inflation steadily erodes purchasing power and, in real terms, cannot be thought of as anything other than a pay cut. Even worse, the effects of even a brief period of uncompensated inflation are permanent (see below) and cast a long shadow over workers' financial futures. In other words, when wages fall behind inflation the effect is cumulative, *and does not go away when inflation returns to normal*.

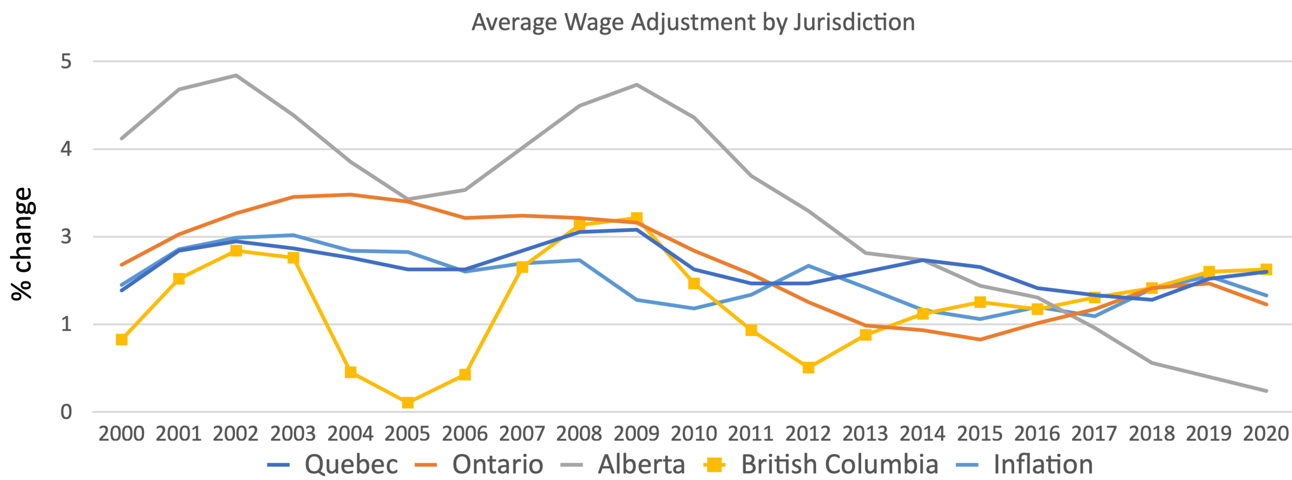

Figure 3

What is the solution? The data in Figure 1 seem to give some hope, showing that in the past, average wages in Canada were able to track along with inflation, even when inflation exceeded 5%. But the situation is not so promising when we dig further into the data to reveal differences between provinces.

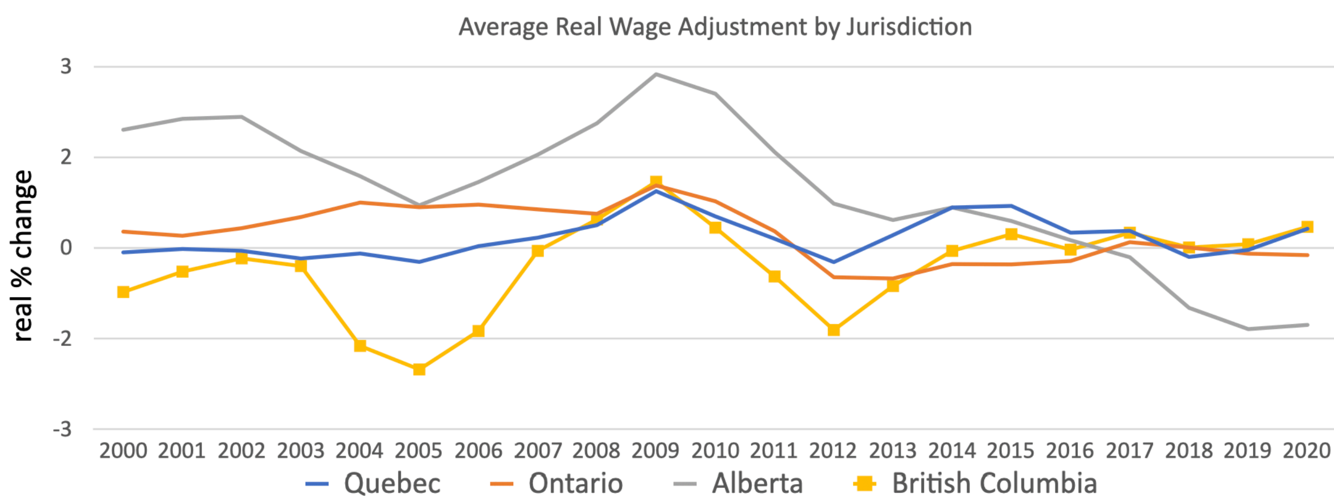

Figure 4

We see in Figure 3 that while wages may have kept pace with inflation at the national level, in British Columbia they have fallen woefully behind, leading to several periods in which the real % change (nominal % change minus inflation rate) was significantly negative, as shown in Figure 4.

Figure 5 reveals the cumulative effective of these periods of negative real wage growth, by compounding the effect over time, starting from 1999. We see that periods of negative real wage growth cause permanent suppression of future real wages.

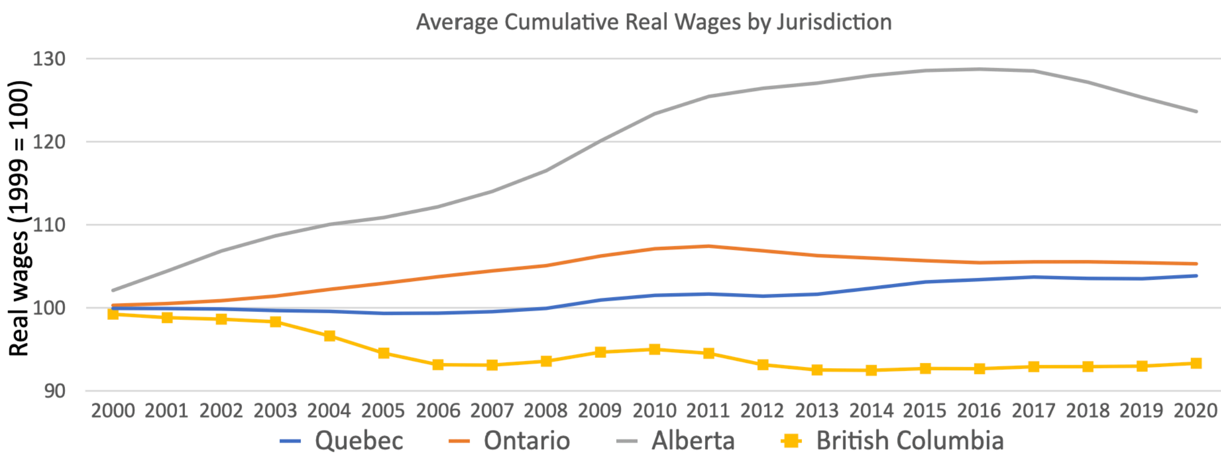

Figure 5

Why is British Columbia such an outlier?

The reason for the dire situation here is that British Columbia has PSEC – the Public Sector Employers' Council – a government entity, with no basis in legislation, that nevertheless imposes strict mandates on how much salaries can be increased to compensate for inflation.

As the figures above show, PSEC has been spectacularly successful in suppressing wages in British Columbia, compared to inflation and to the rest of the country. If past form continues into the current era of out-of-control inflation, we may unfortunately be poised on the brink of an erosion of real wages that is much more serious than anything we have previously seen.

What can be done?

To begin with, questions must be asked about the validity of the PSEC mandate in the post-secondary sector, given that government sources now account for less than half of SFU funding and that, even during the pandemic era, the university has been able to post annual surpluses greater than $50M.

Secondly, it must become clear that post-secondary salary scales cannot be shielded indefinitely from market forces, when knowledge workers have never been in higher demand throughout the economy.

Finally, universities like SFU can and should consider seriously the impact of falling real salaries, refocus budgets on the core work of the university and the people who support it, and insist that universities can and do have the autonomy to make these decisions without government interference.

(*Figures and data courtesy of the Canadian Association of University Teachers – CAUT.*)