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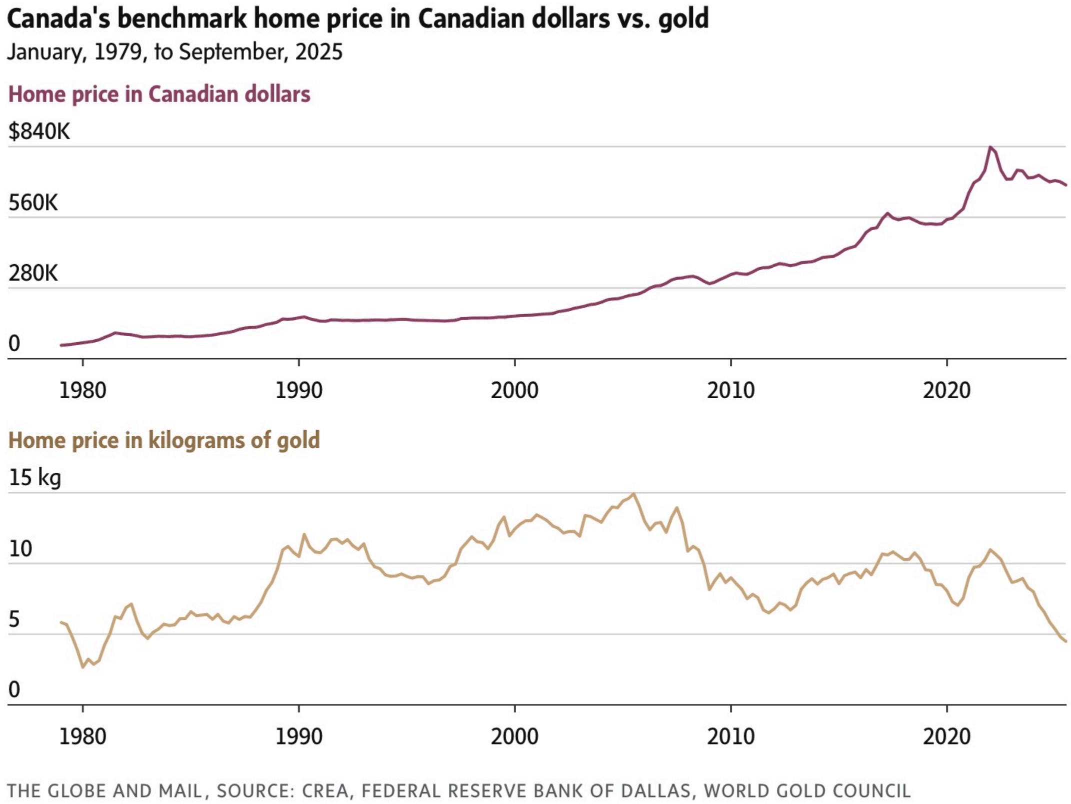
Home **un**-affordability has dominated Canadian headlines for the past decade as housing prices have increasingly outpaced average incomes. Toronto and Vancouver now rank among the least affordable cities in North America, with homes costing more than 10 times the average before-tax household income.

Many analysts point to red tape, zoning restrictions and foreign investment as the primary culprits. An often-overlooked factor is loose monetary policy, including prolonged periods of low interest rates and other measures that increase liquidity. The availability of cheap money fuels demand and drives prices higher. More, loose monetary policy erodes the value of money itself, leading to a natural rise in the price of all assets, including homes.

"And that, son, is where wealth comes from."



As shown in the chart, while home prices have surged in nominal terms, their value in other forms of money such as gold, is now at its lowest level in more than four decades. In 1981, an average Canadian home cost about 4.5 kilograms of gold. Today, it costs roughly the same.

This seems counterintuitive: How can homes be less affordable if their value in gold hasn't risen in 40 years?

The answer lies in fiat currency, which is money not backed by gold and is valuable mainly because governments say so. The rapid expansion of the money supply has eroded purchasing power. The conclusion is inescapable: homes aren't inherently more valuable – our money is simply worth less.

Fiat currencies severed their ties to gold when the U.S. fully abandoned the gold standard in 1971. Before that, the U.S. dollar had been linked to gold or to both gold and silver continuously since 1792. Once detached from a physical reserve, governments and central banks could expand the money supply more freely, a trend that accelerated after the 2007–08 global financial crisis.

Over the past 20 years, Canada's M2 money supply has grown by more than 7.3 per cent annually on average, while growth in nominal gross domestic product (GDP) has been about 4.1 per cent. During this period, consumer inflation averaged roughly 2.2 per cent a year, and income growth remained below 3.5 per cent over the available two decades of data.

When money supply growth outpaces economic growth, excess liquidity shows up as inflation – in consumer prices, asset markets or both. In recent decades, it has largely appeared in assets such as housing, for which prices have risen significantly faster than wages or consumer costs.

While zoning reforms, cutting red tape and restricting foreign investment can help the affordability crisis, the problem cannot be resolved unless money creation and asset inflation are brought into better alignment with income growth. The era of fiat currency is still relatively young, and the long-term consequences remain uncertain, especially given how easily the supply of fiat currency can be expanded compared with earlier forms of money.

The potential for a catastrophic outcome from printing money without limit -so called "elastic currency" is explored further in the book, Paper Money Collapse. This cautionary study of reckless monetary policy serves as a warning to Developed World governments unwilling or unable to rein in spending. Forever deficits are why they need to create money out of thin air, and in the trillions of dollars both in good and bad economic times.

In the 1980s, then-US President Ronald Regan admonished Americans by saying: "just as we cannot live beyond our means at the level of the household, neither can we as a nation of household…". A truism as much then, as now. Which the 40th American President then went on to ignore, running massive and unsustainable deficits, all financed by elastic currency. In his eight years in office, the county's national debt more than tripled, with the deficit in 1983 reaching 6% of GDP (about on par with the Trump Presidency's deficit for 2026).[1]

Schlichter writes: "A collapse of paper money will be a momentous event. It will produce a transfer of wealth of historic proportions, but it does not mean the end of civilization. All wealth is not illusion. Real wealth will survive…".[2]

Thanks for reading!

Martin

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Source 1. PBS, 1998 (https://www.pbs.org/wgbh/commandingheights/shared/minitext/ess_reaganomics.html)

Source 2. Paper Money Collapse, 2011

Source 3(chart). The Globe and Mail

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