You ASKED FOR IT!

Doug Hughes of Wetaskiwin, Alberta asks: To whom do we owe this money to that we are borrowing and how much interest do they collect?

Derek Fildebrandt responds: As of the first-quarter of 2010, Canada's federal debt stood at $564 billion using the Bank of Canada's measurements.

by Derek Fildebrandt
Research Director

The CTF has been raising awareness about the size and scope of our national debt to the public, but we have yet to dive into who we owe it to and how much our lenders are collecting.

Bank of Taxpayers

Canada's "national debt" is defined as the debt owed by all three levels of government combined. According to *The Economist* magazine, Canada's total national debt stands at more than US $1.1 trillion or $32,506 per capita. To put that in perspective, Canada's national debt per capita is $3,813 worse than the United States and only $2,896 better than insolvent Greece.

This article will focus on the largest slice of Canada's national indebtedness – the federal debt. There are several ways to measure the federal debt. By the Bank of Canada's measurement of total "loans and securities" at the end of 2009, the federal debt stood at more than $545 billion (again, this is separate from what is owed by provinces, municipalities and their crown corporations).

The federal government has two national banks: the Bank of Canada and you. While the Bank of Canada is a central bank that sets monetary policy, the other bank is what we might call the Bank of Taxpayers, in which the government can withdraw almost any amount at any time. Currently, all three levels of government are withdrawing about 43% of the average family's income every year.

Governments do however take out loans at times, and they guarantee those loans with – you guessed it – you. Government loans – backed by the guarantee that taxpayers will repay those loans with interest – allow governments to confer immediate benefits on citizens they do not have to pay for. At least in the short-term.

Want your CTF to tackle a question? Ask for it by e-mail at: research@taxpayer.com

Using data provided by the Bank of Canada, our debt load as of the end of 2009 can be sliced into a few broad categories.

Government

The first category is debt owed to the federal government itself, which makes up $60.3 billion or

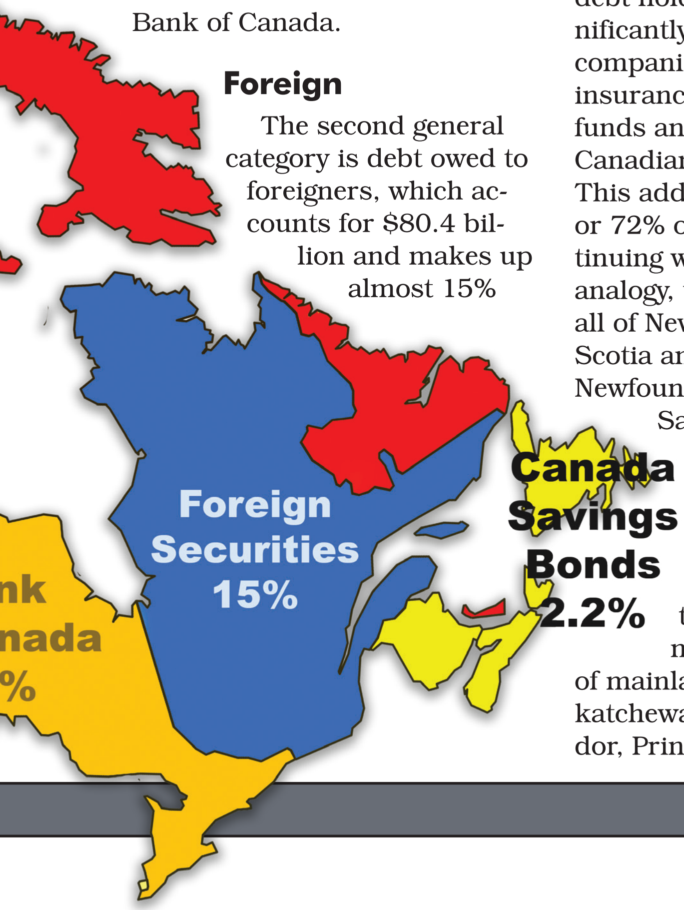
11% of our total federal debt. The overwhelming majority of this is money leant from the Bank of Canada to the government of Canada. In addition, the federal government also owes itself $1.3 billion, known as the Government of Canada Accounts.

To use an analogy, imagine dividing Canada's federal debt into its 10-million square kilometres of real estate. If every square-kilometre Canada was worth $54,500 of federal debt, Vancouver Island would be owed to the government's own accounts, while all of Ontario would be debt owed to the Bank of Canada.

"To put this in perspective, 13-cents out of every dollar collected in federal taxes goes towards paying interest on the debt. This is projected to rise to more than 14-cents by 2011-2012."

Foreign

The second general category is debt owed to foreigners, which accounts for $80.4 billion and makes up almost 15% of our federal mortgage. The overwhelming majority of these holdings are securities owned by non-residents, in addition to "US pay-Canada bills." Together, the foreign-held portion of our debt would cost us the whole of Quebec, using the debt/geography measurement above.



Banks and bonds

The third general category is debt held by the Canadian public ... more-or-less. This includes Canada savings bonds – which total 2.2% of our total debt holdings – and more significantly, banks, trust and loan companies, investment funds, insurance companies, pension funds and a myriad of other Canadian financial institutions. This adds up to $392.6 billion, or 72% of debt holdings. Continuing with the debt/geography analogy, that would mean that all of New Brunswick, Nova Scotia and the island portion of Newfoundland to cover Canada Savings Bonds.

Where things become truly eye-watering however is how much of Canada would be owed to banks and other financial institutions: all of mainland BC, Alberta, Saskatchewan, Manitoba, Labrador, Prince Edward Island and the three territories!

The interest bite

A Leger Marketing poll asked Canadians which professions they trusted most. Not surprisingly, bankers didn't fare well, but did a full 58% better than politicians, who as usual, ranked dead-last. But Canadians should be mindful that politicians in 2010 are in many ways also bankers, using the power of government to borrow mass-sums of money by guaranteeing that you will pay it back, with interest.

"How much interest?" Doug asked. Well, in fiscal year 2009-2010, just under $30 billion for the federal government alone. For every single year in which the government has projections, this amount is expected to increase, reaching well over $40 billion by 2014-15. This is due primarily to a combination of massive deficits, but also the maturation of older debt holdings and projected interest rates.

To put this in perspective, 13-cents out of every dollar collected in federal taxes goes to pay interest on the debt. This is projected to rise to more than 14-cents by 2011-2012. This means that if the federal government carried no debt, the overall tax burden on Canadian society today could be 13% less, even if we maintained all other levels of spending.

Don't hold your breath Doug. Current projections estimate $164 billion in new debt between 2009 and 2013. ■