GPI Atlantic
Genuine Progress Index for Atlantic Canada / Indice de progrès véritable - Atlantique

MEASURING SUSTAINABLE DEVELOPMENT

APPLICATION OF THE GENUINE PROGRESS INDEX TO NOVA SCOTIA

FINANCIAL SECURITY AND DEBT IN ATLANTIC CANADA

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EXECUTIVE SUMMARY

Financial insecurity and distress among poor Canadians have grown in the last decade, during a period of apparent prosperity in which aggregate wealth and the gains of the rich have mushroomed. Canada's wealth gap has widened: while the richest 20% of households owned nearly 70% of the country's wealth in 2005, the poorest 40% owned just over 2%, and the bottom 60% had only 10.7%—down from 11.4% in 1999.

The poorest 20% of Canadian households went deeper into debt between 1999 and 2005, with the magnitude of their *negative* wealth (excess of debts over assets) growing by more than 70% in real terms—from a total of $3.7 billion in 1999 to $6.4 billion in 2005 (in 2005 constant dollars). By contrast, the richest 20% saw their wealth increase by 43% in real terms—from $2.35 trillion in 1999 to $3.37 trillion in 2005.

Evidence from Statistics Canada financial security surveys in 1984, 1999, and 2005 shows that, while the total wealth of Canadians more than tripled in real terms in two decades and overall prosperity grew, millions of Canadians suffered from increasingly severe financial stress. Their debts have grown faster than their assets, their income is inadequate to service their debt, and they rely increasingly on higher cost loans like credit card debt and payday loans just to make ends meet, but that plunge them even deeper into debt. By contrast, wealthier households have the equity and financial means to access low-interest credit, which they can leverage to build assets and increase their wealth.

Poorer households are less able to weather financial crises occasioned by job loss, sickness, death or disability of an earning partner or other unexpected circumstances. They cannot deal with unforeseen and sudden cash requirements for home repair, car repair, medications, or other needs that demand urgent attention. Often, they cannot make bill payments when due. For example, a 2002 Statistics Canada analysis found that that, among the poorest 20% of Canadian households, nearly one-third fell behind two months or more in a bill, loan, rent, or mortgage payment.

Those in the middle saw their wealth increase, largely because the value of their homes increased sharply in the last decade. Unlike the wealthiest 20%, which has more of its assets in stocks, bonds, mutual funds, RRSPs, and other financial investments, homes make up 55% of the assets of the middle 20% of households, and mortgage debt accounts for three-quarters of their total debt.

However, homes are not easily sacrificed or converted to cash at a time of financial crisis. When home values are subtracted, the remaining wealth of those in the middle actually fell by 7% between 1999 and 2005—indicating that the financial security of middle wealth households is tenuous when liquidity is taken into account. Relative to wealthier households, the middle 20% of households also held a smaller portion of the nation's overall wealth in 2005 (8.4%) than in 1999 (8.8%).

Financial distress and insecurity in Canada are not due to any overall shortage of wealth, of which Canada actually has an abundance. Rather, it is the very unequal distribution of that wealth and its concentration in very few hands that has left large numbers of Canadians out in the cold.
While the richest 20% of households had an average wealth of $1.26 million, the poorest 20% had an average net debt of $2,500 (i.e., they had "negative wealth" or more debts than assets) and were, therefore, financially stressed with no financial cushion at all to weather a crisis.

The richest 20% have $32.40 in wealth for every $1 held by the poorest *40%* combined, and $6.60 for every dollar held by the bottom *60%* combined. But even those averages conceal huge disparities. While the richest 20% of Canadian households own 69.2% of the country's wealth, the richest 5% own about 45% and the richest 1% own about 25%.

Atlantic Canada's wealth is also very unevenly distributed. In fact, a higher percentage of Atlantic Canadians have negative wealth (more debts than assets) than in any other region, and these households tend to be deeper in debt than poor households in other regions. About 77,000 Atlantic households have negative wealth, and one-quarter of Atlantic Canadian households have no wealth at all, since their debts, on average, are at least as great as their assets. As in other parts of Canada, Atlantic Canadians in the middle of the scale have most of their wealth tied up in their homes, which are not easily sacrificed or converted to cash in a time of crisis.

While the poorest 40% of Atlantic Canadians own only 3.6% of the region's wealth, the richest 10% of Atlantic Canadian households own about half the region's wealth. Atlantic Canada also has about 11,000 millionaire households—or about 1.1% of all households in the region. Atlantic Canada also has its share of billionaires—the Irvings with $5.3 billion, and Harrison McCain and the Sobey family, each with about $2 billion. John Bragg (who owns EastLink) and John Risley (Fishery Products) have about $700 million each, and the Jodrey family in Hantsport has well over half a billion dollars.

The growing wealth gap in Canada can be partly explained by the aging of the population, and thus the higher proportion of older households in the population. Older Canadians tend to have greater earning power than younger ones and, thus, a greater capacity to accumulate assets, and they have also had longer to pay down their mortgages, pay back other debts, and allow their assets (like homes) to appreciate in value. Younger households may be saddled with student loans and have new mortgages and vehicle loans as they set up households, but they are likely to move from lower to higher wealth groups as they age.

However, such a life cycle analysis cannot wholly explain the growing wealth gap, because the evidence shows that the age-related wealth gap is growing, and that younger Canadians are losing ground to older Canadians in terms of wealth, financial security, and prosperity. Thus, the median net worth of households with older income earners increased sharply between 1999 and 2005 (by 27% for those with earners 65 and older for example), while it fell by 8% in real terms from $20,500 in 1999 to just $18,800 in 2005 for households with earners younger than 35.

In other words, the young are worse off and have less financial security today (despite having more formal education) than those in the same age group a decade ago. This may be due partly to soaring tuition costs and student debt loads and partly to higher rates of low-wage labour.

Wealth inequality has also grown regionally, with the gap between the rich and poor provinces increasing. In 2005, Atlantic Canada accounted for 4.9% of the country's household wealth—down from 5.3% in 1999—even though it had 7.4% of the country's households. The ongoing shift of wealth out of this region continues a long-term trend in which Atlantic Canada has not shared fully in the increase in Canada's wealth. Thus, households in Atlantic Canada experienced the fastest growth in debt in Canada during the six-year period between 1999 and 2005, and saw a larger gap between debt growth (62%) and asset growth (35%) than in any other region.

This summary has focused on two key indicators—trends in financial security and the wealth gap—because these are key measures of progress and wellbeing in the Genuine Progress Index (GPI). Adequate wealth and savings can enhance financial security by enabling households to weather the financial crises that can result from job loss, sickness, death or disability of an income-earning partner, or other unexpected circumstances. They can also provide a reserve for house or car repairs that are suddenly required, or for other unanticipated financial outlays that would strain normal income. Conversely, financial insecurity can seriously compromise wellbeing and cause a range of other problems including stress, anxiety, illness, and (in extreme cases) even crime and suicide.

A growing body of evidence also links improvements in equity with positive economic, social, health, environmental, and political impacts. Conversely, sharp wealth and income inequalities can threaten social stability and cohesion, and undermine productivity and health.

Despite the proven links of both indicators to wellbeing, the evidence examined in this study points to a growing wealth gap in Canada—both between wealth and age groups and between regions, and it points to growing financial distress and insecurity among the poor, with no clear gains in financial security in the middle of the wealth spectrum. These trends, unfortunately, do not signal genuine progress in the GPI despite the fact that aggregate wealth in Canada has grown enormously and that the wealthy (who already had high levels of financial security) have seen their wealth grow further.

Despite the focus on these two key indicators in this summary, this report includes a more detailed examination of many aspects of financial security and of different kinds of debt in order to provide a more nuanced understanding of this important subject. For example, distinctions are made between forms of debt (like mortgages and student loans) that are generally available at reasonably low rates of interest and are used to leverage appreciating assets (like homes and intellectual capital that can increase earning power), and forms of debt (like credit cards and payday loans) that generally carry very high interest charges and are mostly used to finance current consumption or pay bills rather than to build assets.

The evidence also points to clear links between these different kinds of debt and the growing wealth gap. For example, wealthier households can more easily use their homes and other assets as equity to secure relatively low-interest loans and lines of credit, while the households that can least afford it are often driven to rely on high interest credit cards and even exorbitant payday loans because they have less access to cheaper sources of credit. Despite these trends, the report notes that Canadians have generally had very low rates of debt and mortgage default, though consumer bankruptcies have risen sharply in Atlantic Canada to levels much higher than in the rest of the country.

One positive trend has been the capacity of the Nova Scotia provincial government to stabilize its debt since 200–2002, after two decades of accumulating deficits, higher debt loads and debt servicing costs, and a growing debt-to-GDP ratio that peaked at 49% in 1999–2000. In sharp contrast to the annual deficits of the 1980s and 1990s, the Nova Scotia government has balanced its budget and posted modest surpluses in each year since 2000–2001. As a result, the debt-to-GDP ratio declined to 39% in 2005–2006, and debt service costs dropped from 20% of provincial government expenditures in 2000–2001 to 12.4% in 2006–2007.

This trend is important from a sustainability perspective, since capacity to manage and service debt effectively and to use public borrowing to invest in essential infrastructure has a direct impact on the wellbeing of future generations. Conversely, a long history of accumulating deficits and a resultant deepening debt burden, as occurred throughout much of the 1980s and 1990s in Nova Scotia, put such a strain on government finances that debt-servicing obligations imperilled the capacity of governments to provide adequate educational, health, and other services to the public and to invest in essential infrastructure. That, in turn, has directly affected personal and household financial security. For example, a decline in the publicly funded portion of university operating expenses has led to a sharp rise in tuition and student debt burdens that in turn has undermined the financial security of large numbers of graduates.

Despite the positive trends of recent years, it is noteworthy that Nova Scotia still has the second highest per capita debt in the country after Newfoundland and Labrador, the second highest debt-to-GDP ratio, and the second highest ratio of debt-servicing costs to own-source revenues ($20 for every $100 in revenue the province generated itself in 2006–2007.) Despite the gains of recent years, therefore, further progress is clearly needed in this area.

The study concludes, in Chapter 7, with a series of eight recommendations that flow from the evidence examined, and that are designed to address the observed trends. In particular, these recommendations point to policy options that can begin to address the widening wealth gap both in Canada and in the Atlantic region and to enhance the financial security of those currently under stress.

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Any errors or misinterpretations, and all viewpoints expressed, are the sole responsibility of the authors and GPI Atlantic.

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ABBREVIATIONS

FY	Fiscal Year
GPI	Genuine Progress Index
PDI	personal disposable income
SFS	Survey of Financial Security
SLID	Survey of Labour and Income Dynamics

1. Introduction

Household wealth is defined as the value of households' assets minus the value of their debts. In recent decades, Canadians have seen a sharp increase in the value of their assets even as they have continued to take on more debt. However these aggregate observations conceal sharp differences among different regions, different groups of Canadians, and trends in different kinds of debts and assets, and it is a key purpose of this study to identify such differences.

While conventional measures of progress based on the Gross Domestic Product (GDP) tell us how much income is produced, they tell us nothing about how such income is distributed. Similarly, our national and provincial balance sheets provide no information on how wealth is shared and whether that distribution is becoming more or less equitable. As these questions constitute core concerns of the Genuine Progress Index (GPI), this GPI study goes beyond aggregates to distinguish different forms of debts and assets, to identify the major groups of debt-holders (both in Canada and in the Atlantic region) and the kinds of debt they hold, and to assess trends in wealth distribution. This level of information is critical for policy purposes.

The aggregate statistics show that, although Canadian households are rapidly accumulating debt, their aggregate assets still vastly exceed their debts. However, what Canadians owe is growing at a faster rate than the assets they own—with the growing gap most pronounced in Atlantic Canada.

At the same time, the debt load of the poorest Canadian households has grown at a faster rate than for any other wealth group. For many wealthy households, the rise in their indebtedness has been more than offset by the appreciation in their assets and wealth, indicating that some debtors are sophisticated borrowers leveraging debt to build and increase their equity. However, if debt levels are rising at a faster rate among poorer households that lack the ability to service the debt, then the overall escalation in the debt burden witnessed since 1999 may indicate deepening financial insecurity for many households.

In other words, the fact that—at an aggregate level—assets continue to exceed debts may conceal the fact that many households are becoming more financially insecure, as assessed by the changing balance between their debts and assets. Identifying these changing trends among different household groups is a key focus of this report.

In general, Canadian households (at the aggregate level) are spending more and saving less, while at the same time taking on more debt and also experiencing a strong increase in the value of their assets. In 1982, Canadians spent $0.63 cents of each dollar of income on consumption. By 2005, Canadians were spending $0.74 of each dollar of income on consumption.[1] With spending comprising an ever larger share of income, savings have gradually slipped into negative territory.

While the ratios above indicate spending as a proportion of income, spending does not depend on income alone. Increases in spending can also result from taking on more debt, liquidating assets, or cashing in portions of accumulated wealth. Again, this study is concerned with such differences, and attempts to distinguish debt (like mortgages) incurred to expand assets and therefore wealth from debt incurred to finance spending (like consumer credit and short-term payday loans taken out to pay bills). Such distinctions are essential to track whether the financial security of Canadians is improving or not, and to assess which groups of Canadians are experiencing improvements or declines in financial security.

Financial security is a core element of wellbeing, and the Genuine Progress Index (GPI) is a measure that attempts to assess changes in different aspects of wellbeing over time. Because financial insecurity compromises wellbeing, causing a range of other problems including anxiety, illness, and (in extreme cases) even crime and suicide, this exploration is essential for the Genuine Progress Index. Conversely, adequate wealth and savings can enhance financial security by enabling households to weather the financial crises that can result from job loss, sickness, death or disability of an income-earning partner, or other unexpected circumstances. They can also provide a reserve for house or car repairs that are suddenly required, or for other unanticipated financial outlays that would strain normal income. An analysis of the sustainability of current debt levels, their changing relation to assets, and their role in either diminishing or improving long-term financial security is therefore a necessary part of this GPI exploration.

The results indicate that, for many households, current levels of indebtedness are unsustainable and their debt burden has become a major source of financial insecurity and emotional anxiety that detracts from their wellbeing. This analysis attempts to assess the pervasiveness of the situation. Is the economy facing a household debt-triggered downturn that will further imperil the wellbeing of households? Or does the balance between debts and assets for most households remain sufficiently stable and healthy to indicate improvements in financial security and therefore wellbeing?

From a GPI wellbeing and sustainability perspective, debt per se is not an inevitable threat to financial security. Some types of debt can be skilfully leveraged to expand assets and wealth. The concern lies in the type of debt households are undertaking, the level of their debt in the context of household wealth, and their ability to manage and repay debt. It is essential, therefore, to explore debt and assets in greater depth and detail—distinguishing different sources of debt and different types of assets, identifying the debt and asset holders, and examining household circumstances and debt preferences, and the capacity of households to service their debt load.

[1] Statistics Canada. "Personal Debt." *Perspectives on Labour and Income.* (Ottawa: Minister of Industry, 8 (1), catalogue no. 75-001-XIE, January 2007).

Although assets are an equally important component of the financial security equation, this study focuses more intensively on an exploration of changing trends in different forms of debt. Future updates of this report should provide the same level of detail on different types of assets, on the sociodemographic profiles of asset holders, and on trends in wealth holdings (assets minus debts) for these different groups. In the meantime, this study does provide some summary information on asset types, wealth distribution, and asset and wealth trends, but—due to time and resource constraints—in less detail and depth than for debt.

Canadian households, in aggregate, are considerably wealthier now than in previous decades. On the surface, this might be taken to indicate that households are generally more financially secure and better able to achieve their financial goals. However, this general hypothesis, based on aggregate data, requires a careful examination both of the components of wealth and of how this wealth is distributed: Is the appreciation of wealth concentrated in certain types of assets and in the hands of a few, or is it distributed relatively equitably? How liquid are these assets? Certain types of assets are not easily converted to cash in a time of crisis, so the particular *types* of assets and debts accumulated by different groups of Canadians can materially affect their financial security and wellbeing, particularly at times of unexpected financial stress.

In sum, growing aggregate household wealth may potentially mask growing inequalities in the distribution of wealth and reduced liquidity in asset holdings, creating a situation where many Canadians are actually less financially secure even as average wealth increases. These complex issues must be explored to better understand the actual position of household balance sheets, and the consequences of trends in debt, assets, and wealth holdings, as well as changes in their distribution, for the financial security and wellbeing of Canadians.

However, two major caveats must be noted. First, this report is not a detailed analysis of the causes of debt and asset accumulation but focuses more narrowly on the nature, types, and consequences of debt for financial security. Secondly, it does not pretend to answer all the questions posed above in any definitive way but is meant to motivate and provoke further analysis of household debt, assets, and wealth, their consequences and distribution, and the profile of debt- and asset-holders in Canada, Atlantic Canada, and at the provincial level in Nova Scotia. This report is, therefore, a modest step, drawing on limited data sources, which may lead towards the kind of in-depth analysis that is required to assess household financial security more accurately and comprehensively than in many existing conventional analyses that rely more narrowly on aggregate trends.

As noted, this report focuses more intensively on one side of the household balance sheet—debt. Debt is both a direct ingredient of financial security and may also serve as a window on broader issues of economic wellbeing. Other Genuine Progress Index (GPI) Atlantic studies have examined issues of economic and financial security and wellbeing through the lenses of income and wealth distribution, low-income rates, employment and job security, transfers from government, security from the risks imposed by illness, unemployment, single parenthood, and old age, and the effectiveness of the social safety net. This report acts as complement to those analyses of economic security by examining the magnitude and nature of the debt burden held by Canadians and Atlantic Canadians in the context of their assets.

The following analysis of debt, assets, and wealth focuses primarily on trends revealed in the 1999 and 2005 Statistics Canada Surveys of Financial Security (SFS), with particular emphasis, as noted, on types of debt and the profile of debt holders. In order to provide the level of detail required, it was necessary to access special, unpublished SFS data sets kindly provided to GPI Atlantic by Statistics Canada's Income Statistics Division.

Chapter Two discusses the position of household balance sheets, with a focus on the household debt burden, and summarizes debt, asset, and wealth trends. Where data permit, this chapter also discusses the balance sheets of Atlantic and Nova Scotian households. Chapters Three and Four disaggregate the debt burden of Canadians and Atlantic Canadians to explore households' major sources of debt as well as the key characteristics of debt holders. Chapter Five examines the ability of households to manage their debt in the context of their income and assets. Chapter Six provides an overview of the distribution of wealth (assets minus debts) among households.

The study concludes, in Chapter 7, with a series of eight recommendations that flow from the evidence examined, and that are designed to address the observed trends. In particular, these recommendations point to policy options that can begin to address the widening wealth gap both in Canada and in the Atlantic region and to enhance the financial security of those currently under stress.

2. The Balance Sheet Story: Aggregate Debt and Assets

How are trends in household debt and assets shaping Canadians' wealth? How large is the wealth of Canadian households and how much does it appreciate in value? Because households hold debt in the context of assets, an understanding of trends in financial security requires that trends in debt holdings be examined in the context of households' balance sheets.

This chapter begins with an examination of household debt, assets, and balance sheets from Statistics Canada's National Balance Sheet Accounts. National Balance Sheet Accounts data provide an aggregate bird's eye view of the Canadian household sector's financial position.

The aggregate balance sheets of Canada's household sector (the relationship between aggregate household debts and assets) show that, on balance, the household sector's net worth is strong and growing. In both 2005 and 2006, for example, the absolute growth in assets and wealth eclipsed the rise in debt. However, to understand the underlying trends and distribution of debts, assets, and wealth requires delving below the aggregates of the National Balance Sheet Accounts. Indeed, these aggregate accounts are inadequate to assess trends in financial security for particular household groups. The second part of this chapter and the following chapters, therefore, examine financial security based on a more detailed look at debts and assets, as captured in Statistics Canada's Surveys of Financial Security (1999 and 2005).

2.1. National Balance Sheet Accounts

The balance sheets of households are comprised of debts and assets. The difference between what households own (their assets) and what households owe (their debts) is their net worth or "wealth." Net worth or wealth is an indicator of households' financial security because it represents a potential buffer against unanticipated spending needs that households can draw on in a time of crisis, need, or unanticipated income loss. It also allows investment in housing, car, or other repairs for which income alone may be inadequate, and it obviates the need to rely on new borrowing. Adequate wealth can also leverage investments to build assets and further strengthen financial security.

According to Statistics Canada's National Balance Sheet Accounts, Canada's household sector owed $1.2 trillion in outstanding debt at the end of 2007.[2] To put this figure into perspective, the Government of Nova Scotia's net direct debt exceeds $12 billion and the

[2] Statistics Canada. CANSIM Table 378-0004 – National Balance Sheet Accounts, Household Sector.

federal government's net debt (the sum of accumulated deficits) hovers around $524 billion. So household debt in Canada is 2.4 times larger in absolute terms than federal government debt.

The magnitude of household debt and its steady increase have been highlighted in media reports over the past several years. But how much has it actually grown, and how is that growth in debt related to increases in the value of assets? According to Statistics Canada's National Balance Sheet Accounts (NBSA), the aggregate debt of Canadians has grown by an average of more than 7% a year each year this decade (in current prices—not adjusted for inflation). Total household borrowing, again in current dollars, was five times greater in 2007 than twenty-five years earlier. Figure 2.1 below illustrates the trend in household debt over this 25-year period.

However, the value of assets owned by Canadians reached $5.7 trillion in 2007—more than five times the value of their total debt burden.[3] The value of assets that Canadians own in relation to their debts not only determines their net worth or wealth, but it also generally indicates their borrowing capacity and acts as a limit to the amount they can borrow. Thus, a loan applicant will typically be required to provide evidence of his or her assets.

Since the debt growth rate noted above is provided in current dollars, Figure 2.1 below is indexed (with 1982 = 100) to provide a comparison in rates of debt and asset growth over the 25-year period from 1982 to 2007. It is seen that, for the most part, assets and debts have moved upwards in tandem since the early 1980s, though debts have grown at a faster rate than assets, particularly in the most recent decade (Figure 2.1).

When debt and asset growth rates are assessed in constant (inflation-adjusted) dollars rather than current dollars as above, real growth in household debts and assets averaged 3.81% and 3.18% a year, respectively, from 1981 to 2005. On three occasions in the present decade, household assets grew at a faster pace than debts, and in the other years debt grew more rapidly.

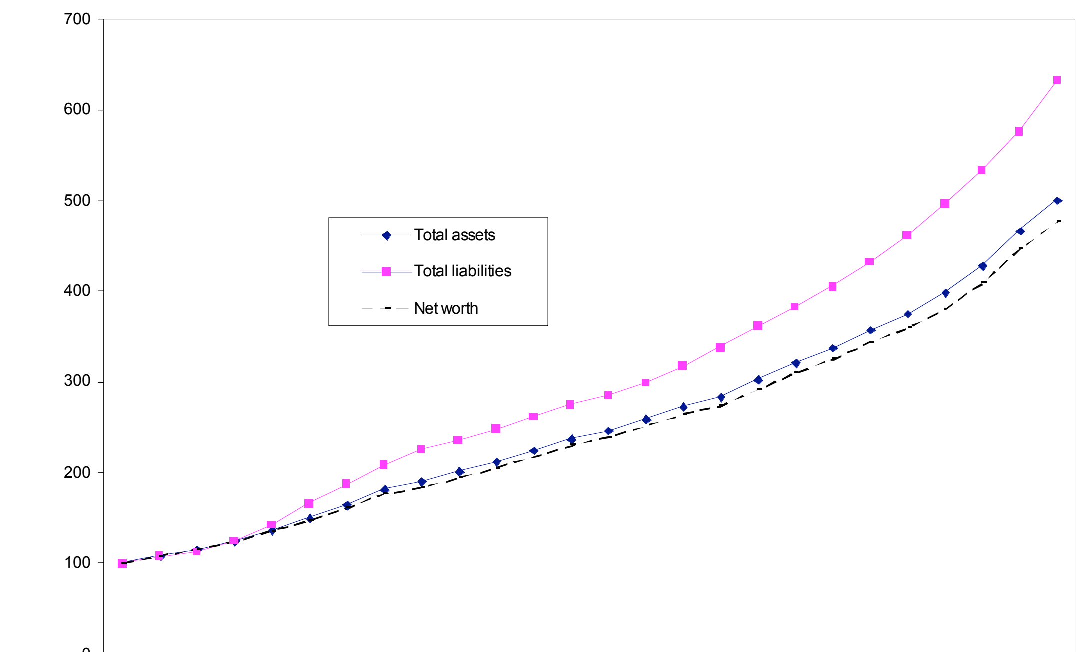
However, these relative rates of increase must also be understood in the context of absolute increases. In absolute dollar terms, assets grew by far more than debts. But because, in aggregate, assets outweigh debts by more than five to one, the relative rates of asset increase are smaller than for debt.

The largest factor fuelling the growth in Canadian household debt has been mortgages. Mortgages represent 60% of household debt and accounted for over 60% of the real increase in debt between 1982 and 2005. Consumer credit (particularly lines of credit and credit card debt) represents one-fourth of total household debt and accounted for 29% of the rise in debt during the 1982 to 2005 period. The contribution of consumer credit to the overall increase in household debt in Canada has been particularly strong since the late 1990s, accounting for 42% of the real growth in household sector debt from 1999 to 2005.

[3] Statistics Canada, National Balance Sheet Accounts. CANSIM Table 378-004.

The popularity and increased use of lines of credit is largely responsible for this increase in consumer credit. Changes in bank lending policies have broadened access to lines of credit, encouraging households to shift towards this debt source, which is typically available at lower borrowing charges than conventional bank loans. Indeed, the share of bank loans (3%) as a proportion of overall household debt, as reported in the NBSA, has shrunk by more than half since 1982, due to an absolute decline in the dollar value of this debt source.

Figure 2.1. Canadian Household Balance Sheet (Index 1982 =100), 1982–2007



	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	00	01	02	03	04	05	06	07
Total assets	100	108	116	125	137	150	165	182	190	201	212	225	237	247	259	273	284	303	322	338	358	376	399	429	467	501
Total liabilities	100	108	113	125	143	166	187	209	226	235	248	262	275	286	300	318	338	361	383	406	432	462	496	533	577	632
Net worth	100	108	116	125	136	147	161	177	184	195	206	218	230	239	252	265	274	292	311	326	344	360	381	409	447	477

Source: Statistics Canada. *CANSIM Table 378-0004 – National Balance Sheet Accounts.* Indexation by GPI Atlantic.

On the asset side of the aggregate household balance sheet, the largest contributors to asset growth in Canada since the early 1980s, according to NBSA estimates, have been financial assets (such as stocks and mutual funds) followed by housing. Financial assets now represent nearly one-third of the total value of household sector assets. Though financial assets remain the largest component of asset ownership, growth has slowed in recent years—even declining in 2003 and 2004—so that their current share of total assets is somewhat lower than during the late 1990s, when it was nearly 40%. Residential properties account for 22–23% of the total value of household assets in Canada, and accounted for the same percentage of real asset growth during the 1982 to 2005 period.

As noted above, the annual rate of asset appreciation has generally lagged behind the pace of debt accumulation. However, because the absolute value of household assets is more than five times larger than the value of household debt, Canadians' aggregate net worth is expanding. In absolute terms, therefore, the balance sheets of Canadian households, at least in aggregate, are widely acknowledged to be in the best shape they have ever been. The cumulative sum of Canadian household net worth topped $4.9 trillion at the end of 2007, the highest it has ever been in real terms.

The National Balance Sheet Accounts (NBSA) provide an up-to-date portrait of aggregate debt and asset trends in the household sector and have the advantage of being available in consistent, annual time series over more than a quarter of a century. However, it is not possible to extract from the NBSA essential disaggregated data on the distribution of debt and assets. For example, detailed information on the different sources of debt (i.e., student loans or vehicle debt), and the breakdown of trends in debt, asset, and wealth accumulation by household characteristics such as wealth quintile are not available in the NBSA.

Without such detailed breakdowns, it is not possible to discern which households are experiencing parallel increases in debt and assets, and which have seen asset growth outpace debt growth or vice-versa. Which households have taken on debt in order to leverage the building of assets, and which are using debt to cover income shortages and to finance current consumption?

In order to access this vital disaggregated data and to understand how financially secure Canadians really are, it is necessary to turn to Statistics Canada's Survey of Financial Security (SFS), which provides a much deeper and more detailed portrait of household balance sheets in Canada. The SFS and its predecessor, the Assets and Debt Survey, though conducted very infrequently (1984, 1999, and 2005), provide much greater detail on the type and distribution of household debts and assets than the more frequent annual estimates of household wealth contained in the National Balance Sheet Accounts. The depth of the SFS is derived from its detailed surveying of households.

Though the NBSA provide a generally rosy picture of household wealth accumulation in Canada, other sources indicate that the households that own the vast majority of assets are not the same households that are most debt-laden and, therefore, the latter are much more financially insecure. Though the NBSA provide no information on this, the SFS reveal that many households that have experienced a stark increase in their debt burdens do not have ample asset ownership to maintain healthy balance sheets and to safeguard their financial security. The very rosy portrait of Canadian net worth painted in the aggregate balance sheets and in wealth trends in the last quarter century is attributable to trends among wealthier households, whose gains not only raise average and aggregate balances but mask growing financial insecurity among many Canadians.

As noted, the most recent SFS tracks household balance sheets in 2005. Unfortunately, the much smaller sample size of that 2005 survey compared to the earlier 1999 SFS, does not allow detailed provincial and regional analysis of results. For regional analyses, we must therefore rely on the somewhat outdated 1999 results, in some cases extrapolating from those earlier results to provide regional projections for 2005 based on national trends demonstrated in the 2005 SFS.

The remainder of this chapter and the central focus of this report moves away from the limited aggregate data provided by the NBSA to examine household debt, assets, and balance sheets by drawing primarily from the 2005 SFS with supporting results from the 1999 SFS. A more detailed regional analysis for Atlantic Canada based on the 1999 SFS is attached in Appendix C. The rest of this introductory chapter is the gateway from which the report delves more deeply into an assessment of the nature, type, and distribution of household debt in particular. It is hoped that future updates of this GPI report will provide equal detail on household assets and net worth.

2.2. Survey of Financial Security: Debts and Assets

Statistics Canada Survey of Financial Security (SFS) data show that the levels of household debts and assets in Canada have both more than tripled in real terms since their 1984 Assets and Debt Survey (Figure 2.3 below). More recently, however, the SFS data show that debt has grown at a faster pace than assets. Household debt grew by 48% between the 1999 and 2005 Surveys of Financial Security, while assets grew by 42%.

Total household debt exceeded $760 billion in 2005, equivalent to an *average* debt of $82,000 per household.[4] By comparison, the debt levels in 1999 and 1984 (both in 2005 constant dollars) were $515 billion and $238 billion respectively, corresponding to average household debts of $62,700 and $37,400 respectively. According to the SFS, Canadian household assets totalled $5.6 trillion in 2005 (or $421,000 per household), up from the $1.6 trillion (or $180,000 per household) documented in the 1984 Assets and Debt Survey (Figures 2.2 and 2.3 below).

According to the SFS, household assets were 7.4 times larger than household debts in 2005. In absolute terms, household assets exceeded debts by $1.4 trillion in 1984, and by $4.9 trillion in 2005 (both numbers in constant 2005 dollars). Since wealth is defined as assets minus debts, the aggregate figures point to a vast expansion of wealth in Canada in the last two decades. Again, these aggregate figures are provided here for introductory purposes only. Further analysis will be required to assess how this wealth is distributed.

[4] Data in this section are from the SFS, with special, unpublished data sets provided to GPI Atlantic by Statistics Canada, Income Statistics Division.

Figure 2.2. Average Debt and Asset Levels of Canadian Households (2005 Constant $), 1984, 1999, and 2005

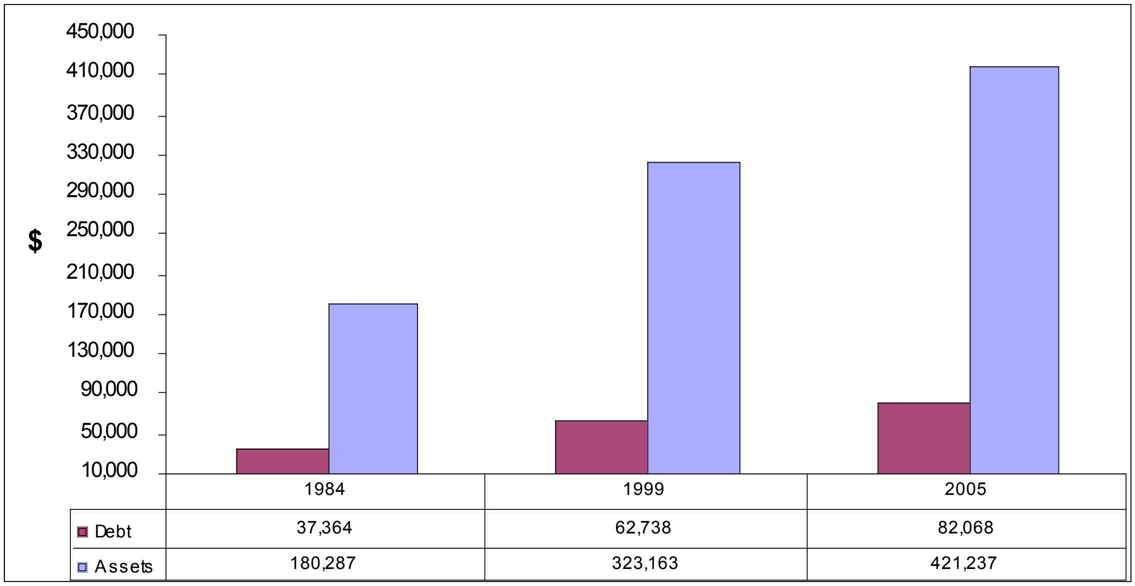
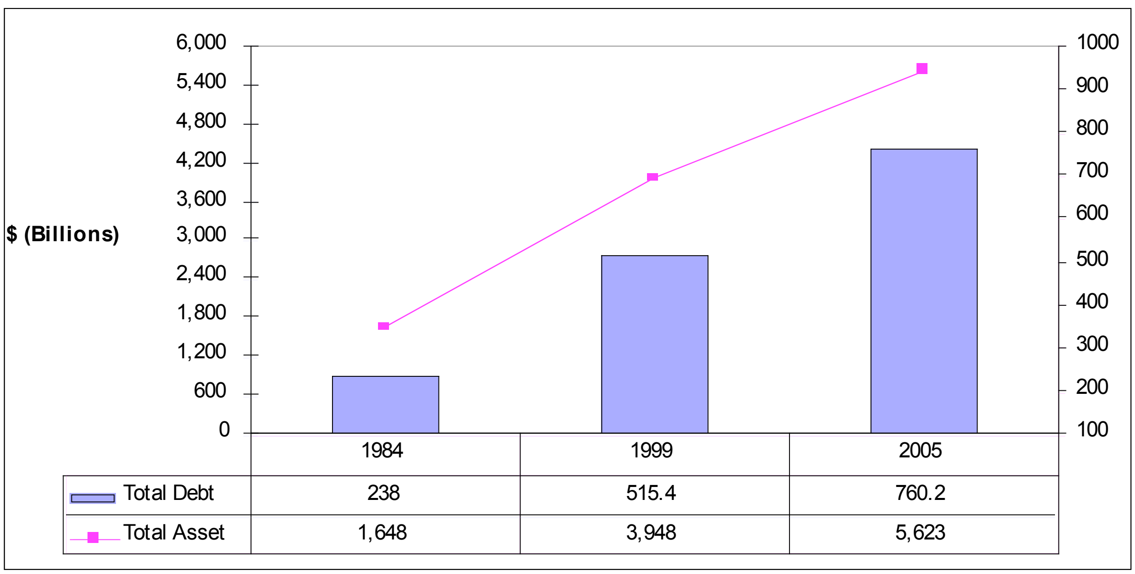


Figure 2.3. Total Debt and Assets of Canadian Households (Billions, 2005 Constant $), 1984, 1999, and 2005



Note: Left axis shows assets; right axis shows debts.

Sources for Figures 2.2 and 2.3: Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 1999 and 2005; Statistics Canada, Income Statistics Division. *Assets and Debt Survey.* 1984. Conversions of 1984 debt levels to 2005 constant dollars by GPI Atlantic using Consumer Price Index (CPI) deflator data provided by Statistics Canada, Income Statistics Division.

2.3. Debt in Canada and Atlantic Canada

Canadian households are borrowing at unprecedented levels, and the overall value of indebtedness has increased sharply in the last two decades.[5] Taking Canada's population growth into account, *average* household debt in 2005 was 31% higher (in constant dollars) than in 1999 and 119% above the 1984 average of $37,400 (also in 2005 constant dollars) (Figure 2.2 above).

The rise in debt reflects both an increased number of indebted households and the larger average amount of household borrowings. An estimated 9.3 million Canadian households carried debt in 2005—13% more, in absolute numbers, than in 1999. The proportion of Canadian households with debt holdings increased from 67% in 1999 to over 69% of Canadian households in 2005.

Households in Atlantic Canada owed $41 billion in 2005, up from $12 billion in 1984 and $25 billion in 1999 (2005 constant dollars).[6] Extrapolating from the Atlantic Canadian data, Nova Scotia is estimated to account for $18 billion of the 2005 household debt burden, a real growth of 62% from $11.2 billion in 1999. Elsewhere in Canada, households in Ontario owed $351 billion in 2005, followed by households in British Columbia ($131 billion) and Quebec ($126 billion), as illustrated in Figure 2.4. Population size is the key factor explaining the overall differences in debt levels among the regions.

Since 1984, Atlantic Canadian households have accumulated debt at a faster rate than the national average. While total Canadian household debt grew by 219% between 1984 and 2005, the level of indebtedness in Atlantic Canada expanded by 233% in real terms. Ontario's debt growth from 1984 to 2005 was the largest of any region—up by nearly 300%, though a part of the increase can be accounted for by its population growth (37%).[7] In the 1999 to 2005 period, in particular, household debt growth in Atlantic Canada considerably exceeded the national rate. During these six years, total household debt in Atlantic Canada grew by 62% compared to 48% in Canada, despite the region's population decline (down 0.4%).

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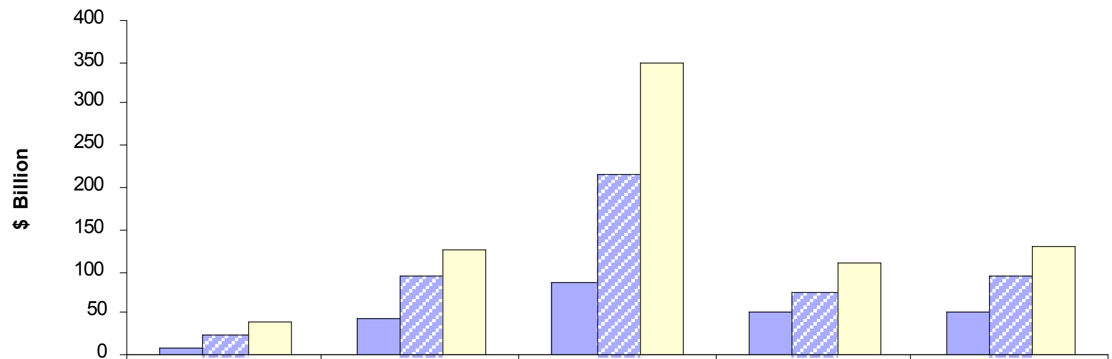
[5] The use of the term "households" in this report is analogous to the Survey of Financial Security's (SFS) definition of "family unit." In the SFS, family units include "economic families" *as well as* unattached individuals. An economic family is a group of two or more people who inhabit the same dwelling and are related to each other by marriage, common-law, blood, or adoption.
[6] Unpublished data from the 2005 SFS provided to GPI Atlantic by Statistics Canada, Income Statistics Division.
[7] Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 1999 and 2005; Statistics Canada, Income Statistics Division. *Assets and Debt Survey*. 1984. Values adjusted to 2005 constant dollars by GPI Atlantic.

Figure 2.4. Debt Levels by Region (Billions, 2005 Constant $), 1984, 1999, and 2005



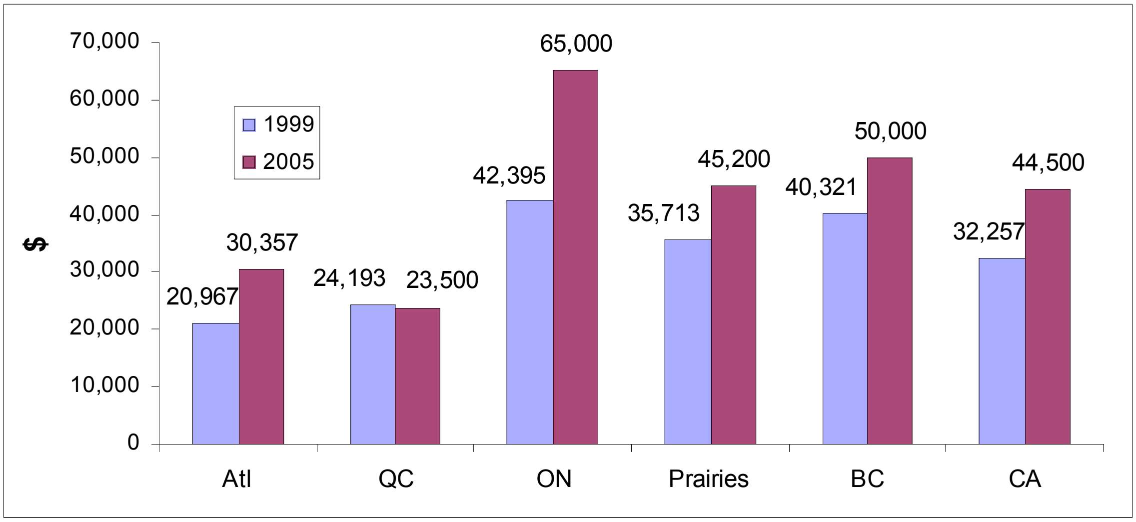
	Atl	QC	ON	Prairies	BC
1984	12.3	45.2	88.5	53.5	53.5
1999	25.3	96.0	218.9	78.7	96.4
2005	41.0	125.9	351.0	111.3	131.1

Sources: Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 1999 and 2005; Statistics Canada, Income Statistics Division. *Assets and Debt Survey.* 1984. Conversions of 1984 debt levels to 2005 constant dollars by GPI Atlantic using Consumer Price Index (CPI) deflator data provided by Statistics Canada, Income Statistics Division.

Debt is growing at a faster rate in the Atlantic region than in other parts of Canada, even though the median value of household debt in Atlantic Canada is substantially smaller than the national level (see Figure 2.5 below). In 2005, the median debt level of Atlantic Canadian households was $30,357—about $14,000 below the national median and substantially lower than the median household debt in Ontario ($65,000), British Columbia ($50,000), and the Prairie provinces ($45,200). In 2005, Quebec households had the lowest median debt owing in the country ($23,500), and Quebec is also the only part of the country where median debt levels did not rise substantially between 1999 and 2005. Despite Atlantic Canada's comparatively lower level of median household debt, the region posted the second sharpest rise in the median value of debt between 1999 and 2005 (45%) after Ontario (53%).[8]

[8] Data for median debt levels in 1984 could not be obtained at the time of writing.

Figure 2.5. Median Household Debt (2005 Constant $), by Region, 1999 and 2005

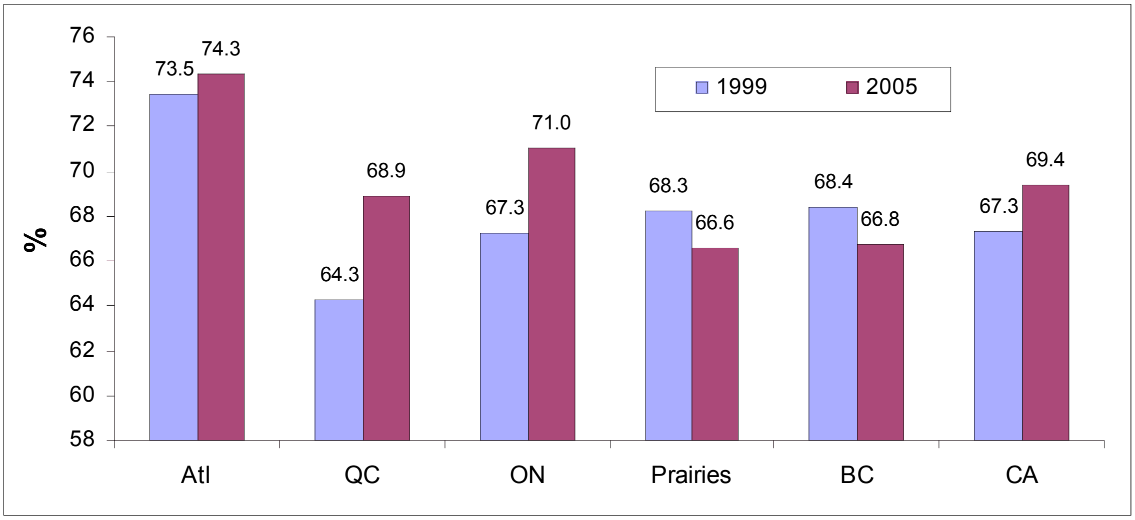


Source: Data provided by Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 1999 and 2005.

A substantially greater proportion of households in Atlantic Canada are in debt than in the rest of the country. More than 74% of Atlantic Canadian households owed money in 2005. This rate is marginally higher than in 1999 and substantially greater than the national rate of 69% and the rates in the other regions: 71% in Ontario, 69% in Quebec, and 67% in British Columbia and the Prairie provinces (see Figure 2.6). The western provinces (BC and the Prairies) are the only regions to have seen a decline since 1999 in the proportion of households with debt.

In 2005, the number of households with debt in Atlantic Canada constituted 7.9% of the Canadian total, down slightly from 8.3% in 1999. This decline reflects a contraction in the region's population relative to the rest of the country: Atlantic Canadians accounted for 7.7% of Canada's population in 1999 and 7.3% in 2005. However, because debt is growing faster in the Atlantic region than nationally, Atlantic Canada's share of total Canadian household debt rose from 4.9% in 1999 to 5.4% in 2005.

Figure 2.6. Proportion of Canadian Households with Debt (Percent), Canada and Regions, 1999 and 2005



Source: Data and calculations of share are from Statistics Canada, Income Statistics Division. *Survey of Financial Security.* 1999 and 2005.

What types of debt are contributing most to the rising debt burden of Canadian households? The SFS counts mortgages, lines of credit, credit card and instalment debt, student loans, vehicle loans, and other loans including unpaid bills.[9] The 2005 SFS shows that lines of credit are the fastest growing source of debt in Canada, with outstanding balances rising between 1999 and 2005 by 133% in real terms, to $68 billion. The increased popularity of lines of credit has been largely fuelled both by changing bank loan practices and by rising home prices that have enabled households to secure larger lines of credit using their homes as equity. More in-depth discussions about the various sources of household debt and about the characteristics of debt holders are provided in Chapters 3 and 4.

2.4. Survey of Financial Security: Wealth and Assets

The aggregate tally of Canadian households' net worth or wealth (assets minus debts) was $4.9 trillion in 2005, according to Statistics Canada's Survey of Financial Security (SFS). In the 21-year period from 1984 to 2005 (the period between the first detailed survey of household finances to the most recent survey), the real value of household wealth grew by 245%. Between the two most recent Surveys of Financial Security (1999

[9] The SFS defines instalment debt as the "amount owing on deferred payment or instalment plans where the purchased item is to be paid over a period of time." Source: Statistics Canada, Pensions and Wealth Survey Sections. *The Wealth of Canadians: An Overview of the Results of the 2005 Survey of Financial Security.* (Ottawa: Minister of Industry, catalogue # 13F0026MIE, December 2006), page 37.

and 2005), net worth rose by 42%.[10] Chapter 6 will analyze these increases in net worth in greater detail, with particular attention to the distribution of wealth among households.

It is the sharp appreciation in the value of assets owned by Canadian households that is underpinning the dramatic increase in wealth in the country. In 2005, Canadians owned $5.6 trillion in assets (Figure 2.3 above). Over the 21-year period from 1984 to 2005, the aggregate growth in household assets far exceeded the real increase in debt in absolute dollar terms. The value of Canadian household assets was 241% greater in real terms in 2005 than in 1984, while the value of outstanding debt was 219% greater (2005 constant dollars). The growth rates conceal the fact that, in absolute dollar amounts, assets increased by $4 trillion during this period while total debt increased by $522 billion.

In the most recent period from 1999 to 2005, however, the relative rate of appreciation in asset value did not keep pace with the rate of increase in household debt. While the value of assets held by Canadian households grew by more than 42% between 1999 and 2005 to $5.6 trillion, debt grew by 48% (see Figure 2.7 below). This might be considered a potentially troubling sign in a time of apparent economic prosperity until it is seen that, in absolute terms, asset value increased by $1.7 trillion in this six-year period, while the total value of debts increased by $245 billion. Again, these aggregate statistics conceal vast differences among types of households that later sections will discuss.

Virtually every Canadian household owns assets. These assets range from durable items (i.e., furniture, household items, and electronics) to homes, vehicles, and financial assets such as bank savings accounts, RRSPs, stocks, and bonds. The nature and value of assets vary according to financial circumstances (with lower income households less likely to own financial assets, for example), and according to households' diverse preferences for different types of asset ownership.

Homes and pension holdings are the largest components of Canadian household assets. The surge in the value of real estate (main residences and other real estate) accounted for 50% of the growth in total household assets between 1999 and 2005.[11] The appreciating value of homes, while enhancing net worth, may be a double-edged sword for some households because it typically results in higher property taxes—thus requiring greater cash outlays to support a relatively non-liquid asset.

Private pensions, the value of which increased by 42% between 1999 and 2005, provided the second largest boost to overall Canadian asset holdings in recent years. These pension funds, and indeed other equity investments, have benefited from the rebound in Canadian stock markets that followed the "Tech Wreck" of 2001.

The growth of household assets and wealth is also a function of an aging population. Older Canadians tend to have more assets and to have had a longer earning period to

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[10] This growth rate from the SFS mirrors changes in the National Balance Sheet Accounts (NBSA), but appears considerably stronger in the SFS (42%) than in the NBSA (22%).
[11] Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 2005.

accumulate assets.[12] Older Canadians are also more likely than their younger counterparts to own their own homes without mortgages, to have pensions, and to have accumulated more financial assets. The sharp appreciation in home prices in Canada in the present decade is further inflating the value of assets held by older Canadians and, consequently, their wealth.

The 2005 SFS indicates that the largest asset holdings and the fastest growing types of assets are those assets that are comparatively less liquid. Liquidity is the ease with which assets can be converted into cash.[13] The most liquid assets—cash holdings and deposits in banks and other financial institutions—account for only 4% of the total value of assets, but are most widely held by Canadians (87%).

The majority of assets owned by households are concentrated in housing and private pensions. Main residences, valued at $1.9 trillion in 2005, comprise 33% of the total value of assets in Canada. Private pension assets are the second largest component, making up 29% of total assets ($1.6 trillion in 2005).[14] The value of these assets fluctuates according to economic cycles, which affects their overall value. About 71% of Canadian households have private pension assets and 62% count homes amongst their assets.[15]

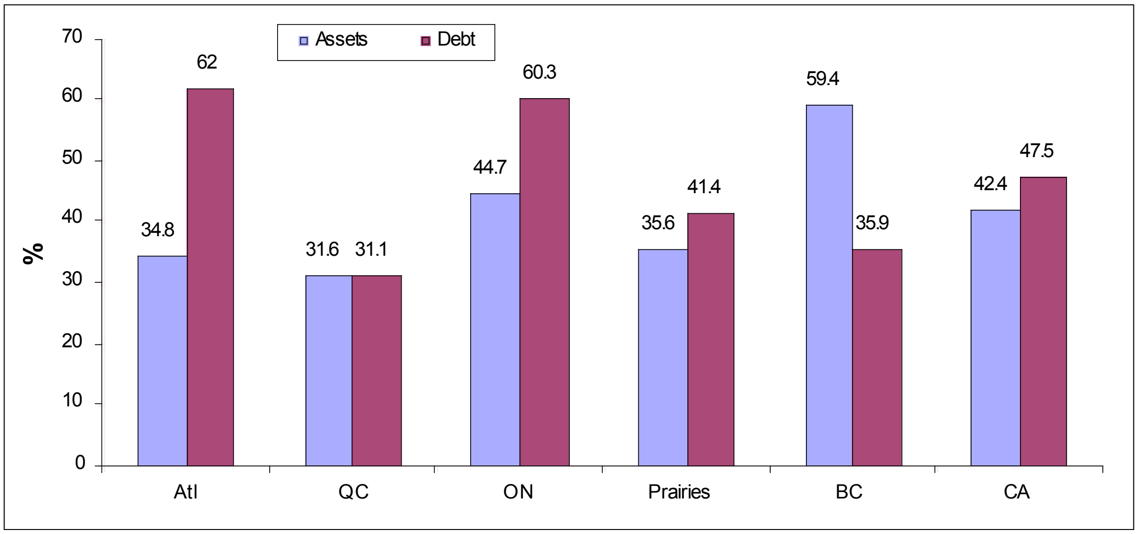
2.4.1. Assets in Atlantic Canada

According to the 2005 SFS, Atlantic Canadian households own $278 billion in assets. Extrapolating from 1999 data, Nova Scotia's share of this total is an estimated $121 billion, up by $31 billion in real terms from 1999, and nearly three-and-a-half times greater than in 1984.[16] The value of household assets in the Atlantic region grew by 217% (in real terms) from 1984 to 2005. This robust rate of growth is slower than the national rate of 241%.

The two most recent Surveys of Financial Security show that the value of household assets in Atlantic Canada grew by 35% from 1999 to 2005—the second slowest rate of growth in the country ahead of only Quebec (32%)—while debt grew by 62% in the same period. By comparison with other regions, the gap between the rates of growth in assets and debt is steepest in Atlantic Canada, as Figure 2.7 below illustrates.

[12] Morisette, René, and Xuelin Zhang. "Revisiting Wealth Inequality." *Perspectives on Labour and Income* (Ottawa: Minister of Industry, 7 (12), catalogue no. 75-001-XIE, December 2006), page 8.
[13] Cash holdings and deposits in banks and other financial institutions are the most liquid assets, particularly compared to homes, and they are also more liquid than financial assets tied to stocks or mutual funds.
[14] Statistics Canada's 2005 Survey of Financial Security defines private pension assets as including RRSPs, Registered Retirement Income Funds, Locked-in Retirement Accounts, and Employer-sponsored Registered Pension Plans.
[15] Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 2005.
[16] This 2005 estimate is based on Nova Scotia's share of the total value of assets in Atlantic Canada in 1999, and assumes that this share remained constant. As noted earlier, the 2005 SFS sample size was much smaller than that of the 1999 SFS, which therefore provides the most recent provincial breakdowns.

Figure 2.7. Growth in Household Debts and Assets (Percent), Canada and Regions, 1999–2005

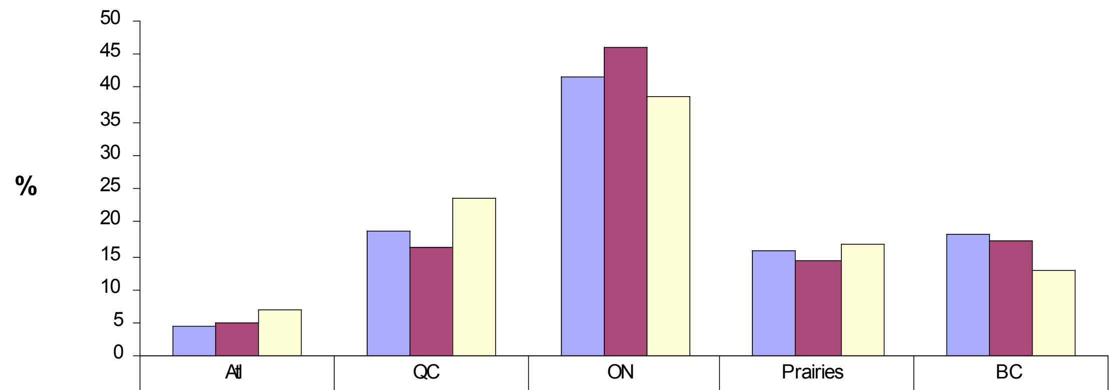


Source: Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 2005.

Atlantic Canada accounts for a correspondingly smaller share of national household assets than two decades ago and relative to its population. Due to its slower rate of asset appreciation relative to other regions, the region's share of national assets declined from 5.3% in 1984 to 4.9% in 2005, although it accounted for 7.3% of the country's population (Figure 2.8 below). Asset appreciation in Atlantic Canada accounted for 4% of the national gain between 1999 and 2005—down from 5% during the 15-year period between Statistics Canada's 1984 Assets and Debt Survey and its 1999 Survey of Financial Security. Since assets accrue disproportionately to households in the higher income quintiles, a key factor accounting for the slower pace of asset growth in Atlantic Canada is its smaller proportion of high-income households compared to other regions in Canada.

Again, it is important to emphasize the limitations of aggregate debt and asset analysis presented in this chapter. Thus, the remaining chapters will focus on types of debt, the characteristics of debt holders, and the distribution of debt, assets, and wealth by wealth quintile. These details are essential to any understanding of financial security in Canada generally and in the Atlantic region in particular.

Figure 2.8. Share of National Debt, Assets, and Population (Percent), by Region, 2005



	Atl	QC	ON	Prairies	BC
Assets	4.9	19	41.9	15.8	18.5
Debt	5.4	16.6	46.2	14.6	17.2
Population	7	24	39	17	13

Source: Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 2005. Population share calculation by GPI Atlantic based on Statistics Canada. *CANSIM Table 051-0001*.

3. Types of Debt: the Good, the Bad, and the Ugly

Households, at one time or another, typically hold some form of debt. Debt can be a useful, prudent, and well-considered avenue for acquiring and buildings assets that strengthen long-term financial security and wellbeing (e.g., buying a home or investing in a retirement account). However, households also borrow as a means to finance regular and unexpected spending (current consumption), in which case debt may not build assets but can instead plant the seeds of future difficulties in servicing and paying off the debt. Other forms of debt, like very high-interest "payday" loans, signify financial insecurity and even desperation that can accentuate a downward spiral in financial capacity.

Because different types of debt can have very different implications for financial security for different groups of Canadians, this chapter delves into the composition of Canadian household debt and the next chapter asks who the holders of different kinds of debt are. To understand shifts in the sources of debt held by Canadians, it is also important to ask whether the preference for certain types of borrowing is changing over time, motivated either by the changing economy, by government legislation, or by trends in consumption.[17]

In an attempt to understand the sources of debt held by Canadians, this chapter relies primarily on data from Statistics Canada's Surveys of Financial Security, and draws also from the System of National Accounts, the Bank of Canada, the Canadian Bankers' Association, the Canada Mortgage and Housing Association, and a range of Statistics Canada sources.[18]

The debt level of Canada's household sector has risen sharply during this decade, spurred by a period of historically low interest rates and by diverse accessibility to credit such as lines of credits, credit cards, and "buy now pay later" instalment debt. As noted, it is important to examine the types of debt households have, since the types of debt holdings may enhance or undermine their financial security. This is partly because borrowing comes at a cost, with the magnitude of that cost often correlated with the perceived risk of the borrower. Thus, the ability to borrow at lower cost depends on financial status, which in turn influences accessibility to particular sources of credit. For this reason, the type of debt can be a key indicator of financial security.

Because the sources of debt households owe are linked to their financial security, this report takes the rather bold step of classifying debt in normative terms, according to the purpose of the debt, how it is used, and the interest charges on the debt. Thus, the cost of servicing the debt and the end use of the debt together can help determine:

[17] Future updates of this study should undertake a similar detailed analysis of the other half of the balance sheet equation: asset composition and asset holders.
[18] Unless otherwise noted, the data used in this chapter are from: Statistics Canada. *Survey of Financial Security*. 1999 and 2005.

- "good" debt in the sense that it helps to build long-lasting assets (like homes that tend to appreciate in value over time) on the basis of relatively low interest rates, thereby potentially enhancing long-term financial security. Borrowing for these so-called good purposes must be put in a context that takes into account the income and wealth of a household, which, in turn, determines its ability to service the debt with minimal financial strain.
- "not so good" debt in the sense that it finances medium-term asset acquisition (e.g., assets like cars that generally have higher depreciation rates) and current consumption on the basis of somewhat higher interest rates.
- "bad" or just plain "ugly" debt due to very high interest charges. Undertaking these types of debt may signify short-term financial crisis management and may trigger both current and future financial stress.

These are broad and generalized classifications on how different types of debt tend to be used and on the varying interest costs faced by households. Needless to say, different households might use the same type of debt differently, which would, in turn, affect the categorization of debt, as would the capacity of different households to manage their debt. To give just one example: Student loans are classified here as good debt because they meet the criteria of leveraging long-lasting assets (in enhanced human capital that may later increase income) at relatively low interest rates. But as the discussion will note, the magnitude of this student debt may in some cases be so great and the capacity to service it so low that it would be considered a bad debt for some households if it becomes a detriment to financial security.

In sum, the normative classification of debt types is directly related to whether financial security is enhanced or undermined by the particular debt. The categories of debt type in this chapter, according to the two criteria of end purpose and interest charges, therefore serve only as generalizations that must be modified by the particular financial status of the households incurring that debt and other circumstances.

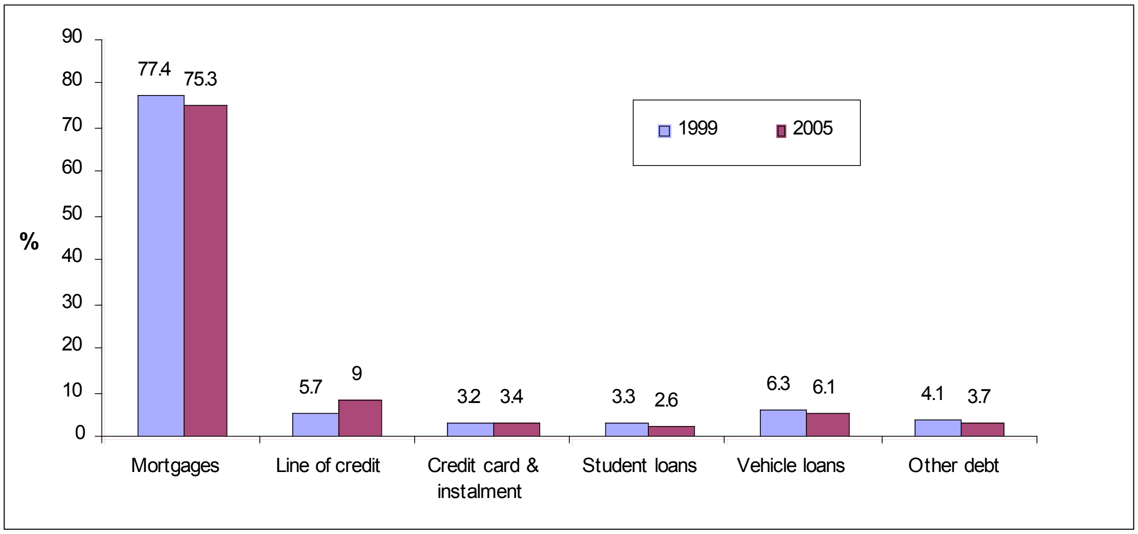
3.1. Good Debt: Low-Interest Asset Builder

Borrowing to build home equity and to finance education is considered in this section as good debt. These are generally sound investments that can build assets and wealth at comparatively low borrowing costs. Incurring student debt to pursue higher education, for example, can enhance human capital and provide a potential avenue to higher future earnings, financial security, and wellbeing.

Taking on major debt even with the intention of building long-term wealth may not, however, be feasible based on existing household income and asset levels. Consequently, a good debt may actually be a not so good debt if capacity to make payments is uncertain and if financial security is undermined by the size and nature of the debt obligations. For example, the escalating magnitude of student debts and their potential to undermine the financial security of graduates for years to come, must be carefully balanced in the classification criteria suggested here against the asset-building potential of the investment in higher education. In fact, as the current sub-prime mortgage crisis in the U.S. graphically demonstrates, inability to service home mortgage debt may not only lead to personal defaults and home repossession at the household level but may also undermine the economy and financial system at large.

Nevertheless, it remains generally true that mortgage debt and student loans are undertaken to leverage assets and are available at relatively low interest charges. The most important source of debt for Canadian households is the mortgage on their homes. As shown in Figure 3.1 below, mortgages constitute about three-quarters of Canadian household debt, and at the other end of the spectrum, student loans represent one of the smallest aggregate sources of household debt.[19]

Figure 3.1. Household Debt as Share of Total Debt (Percent), by Source, Canada, 1999 and 2005



Source: Statistics Canada, Summary Tables Online. *Income, Pensions, Spending and Wealth: Assets and Debts Held by Family Units, Total Amounts*. Available at: http://www40.statcan.ca/l01/cst01/famil109.htm?sdi=assets%20family%20units [accessed May 18, 2007].

3.1.1. Mortgages

Housing is the primary source of debt for Canadians. In 2005, 75% of total household debt in Canada was owed to mortgages. Mortgages for primary residences, totalling $486 billion, accounted for 64% of total household debt in 2005. Households also invested in other real estate, with mortgages on these investments accounting for an additional 11% of household debt, or $86 billion. The median value of mortgages in 2005 ($93,000) was 17% higher in real terms than in 1999. Although the total value of mortgages held by

[19] Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 2005.

Canadian households has risen over 43% in real terms since 1999, mortgages actually comprised a slightly smaller share of total debt in 2005 (75%) than in 1999 (77%).[20]

Mortgages in Atlantic Canada were estimated to total $25 billion in 2005. In 1999, the most recent date for which regional SFS data on different types of debt are available, total mortgage debt (primary residences plus other real estate) in Atlantic Canada accounted for 61% of total household debt in the region—a significantly smaller share than in the country as a whole, where mortgage debt accounted for 77% of all household debt.[21] This disparity is due partly to the higher rate of mortgage-free home ownership in the Atlantic region, partly to relatively lower property values, and partly to the region's greater relative reliance on other forms of debt like vehicle and student loans.

According to the results of the 2006 Census, released in June 2008, the Atlantic region continues to have the highest home ownership rate in the country, with Newfoundland and Labrador leading the way at 78.7%, followed by New Brunswick at 75.5%, and Prince Edward Island at 74.1%, compared to a national average of 68%. But Newfoundland and Labrador also has the smallest proportion of homeowners with a mortgage (44.8% compared to 57.9% nationwide), with the three Maritime provinces also below the national average: 52.3% in New Brunswick, 52.5% in Nova Scotia, and 54.2% in Prince Edward Island.[22]

In Nova Scotia, where 72% of households own their own homes, mortgages constituted an estimated 65% of total debt, based on the most recently available provincial breakdowns in the 1999 SFS. Again, partly because of the higher rate of mortgage-free home ownership, the four Atlantic Provinces together accounted for less than 4% of the total value of Canadian mortgages in 1999, although the region accounted for 7.7% of the Canadian population that year. Though they still constitute by far the largest share of total debt in Atlantic Canada, mortgages are therefore somewhat less important, relatively speaking, in this region than in the rest of the country when considered as a proportion of all debt.

Unfortunately, the reduced sample size of the 2005 SFS does not allow regional and provincial breakdowns of data by type of debt, so the 1999 SFS is the most recent source of data for Atlantic Canadian breakdowns of these debts. Partial mortgage trends at the provincial level can also be assessed through the Bank of Canada's data from Canadian chartered banks.[23] However, this source does not provide the *total* value of outstanding

[20] This decline in the importance of mortgages to overall household debt is re-affirmed by the Canada Mortgage and Housing Corporation (CMHC) in its publication *Canadian Housing Observer 2005*.

[21] Based on the 1999 SFS—the latest Statistics Canada survey available that provides a breakdown of debt components by region.

[22] Statistics Canada. *Changing Patterns in Canadian Home Ownership and Shelter Costs, 2006 Census.* (Ottawa: Statistics Canada, catalogue no. 97-554-X, June. 2008), Tables 13 and 14, page 37. Available at: http://www12.statcan.ca/english/census06/analysis/shelter/pdf/97-554-XIE2006001.pdf [accessed June 17, 2008].

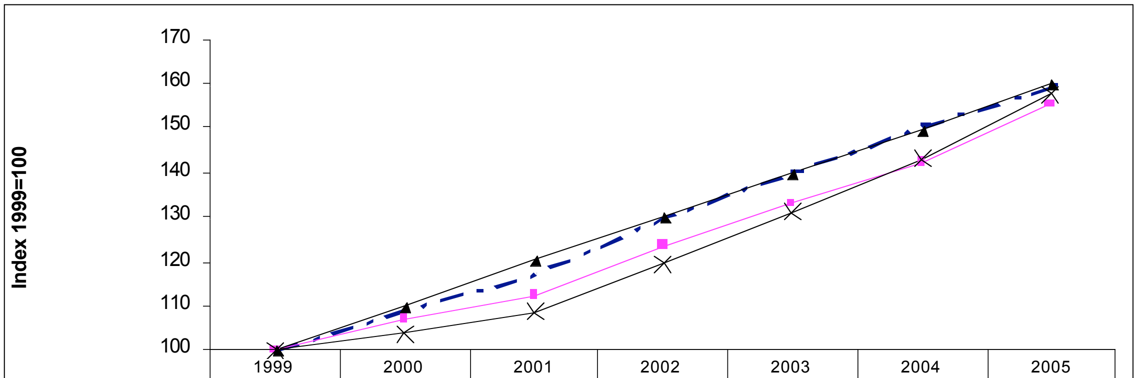
[23] The Bank of Canada's *Weekly Financial Statistics* periodical is available and accessed via Statistics Canada's CANSIM database, Table 176-0045.

mortgages because, aside from chartered banks, residential mortgages are also available through sources such as credit unions, trust companies, and other finance companies.

At the end of 2005, according to the Bank of Canada's chartered bank statistics, Nova Scotian households held $9.6 billion in mortgage debt from chartered banks. The value of mortgages in the province owed to chartered banks grew by 8% a year on an average annual basis in the first half of this decade—in line with the rate of national growth (Figure 3.2 below).

One key factor underlying this increase in mortgage value is the sharp appreciation of home prices, brought about by a strong housing market. According to the Canada Mortgage and Housing Corporation (CMHC), home prices in Nova Scotia also grew by an average of about 8% annually between 2000 and 2005, similar to the national increase of 9% per annum during this period (Figure 3.2 below).[24]

Figure 3.2. Trends in Chartered Bank Residential Mortgages and MLS Average Home Prices (Index 1999 = 100), Canada and Nova Scotia, 1999–2005



	1999	2000	2001	2002	2003	2004	2005
NS Mortgage	100.0	108.9	117.4	130.1	139.9	150.6	159.5
NS Home Price	100.0	107.0	112.5	123.4	132.8	142.3	155.5
CA Mortgage	100.0	110.1	120.7	129.8	139.6	149.8	159.9
CA Home Price	100.0	103.7	108.6	119.4	131.0	143.1	157.6

Sources: Statistics Canada. *CANSIM Table 176-0045 – Chartered Banks, Regional Distribution of Assets and Liabilities, at End of Period, Canada, Provinces and International, Quarterly.* Bank of Canada data on mortgages from chartered banks are accessed via this Statistics Canada Table; Canada Mortgage and Housing Corporation (CMHC). *Canadian Housing Observer 2006.* (Ottawa: CMHC, 2006), Data Tables on Housing Market Indicators. Available at: http://www.cmhc-schl.gc.ca/en/corp/about/cahoob/data/data_001.cfm [accessed May 18, 2007]. Index calculations by GPI Atlantic.

Contributing to this sharp increase in both home ownership and mortgage debt, low interest rates during the current decade have made it easier for many households to

[24] Based on MLS® average price (Multiple Listing Service, a trademark of Canadian Real Estate Association), as provided in Canada Mortgage and Housing Corporation's (CMHC) *Canadian Housing Observer.* (Ottawa: CMHC, 2006).

become first-time home buyers and for others to delve into real estate investments beyond their primary homes. Statistics Canada's Survey of Household Spending shows that the rate of home ownership in Canada rose from 63.7% in 1999 to 67.1% in 2005.[25]

The 2006 Census data, just released in June 2008, reveal even more accurately how home ownership has changed at the national, provincial, and sub-provincial levels, since the very large census sample provides the most accurate and reliable data available on the subject, particularly at the provincial and sub-provincial levels. These data show that home ownership in Canada is at its highest level since 1971, with more than two-thirds of Canadians owning their own homes, and that mortgage holdings are at their highest level since 1981, with nearly six out of ten homeowners carrying a mortgage.[26] Since 2001 alone, home ownership nationwide increased from 65.8% of households to 68.4% in 2006, growing in every province in the country. In Nova Scotia, home ownership rose from 70.8% of households in 2001 to 72% in 2006.[27]

The 2006 Census indicates that the proportion of homeowners with mortgages increased nationwide by 2.7 percentage points, from 55.2% of owner households in 2001 to 57.9% in 2006. Interestingly, although Atlantic Canada has a higher proportion of mortgage-free home ownership than the rest of the country, mortgage holding grew fastest in this region between 2001 and 2006.

Thus, owner households with mortgages jumped by 4.5 percentage points in Newfoundland and Labrador—from 40.3% in 2001 to 44.8% in 2006. The rate increased by 3.2 percentage points in Nova Scotia and Prince Edward Island—from 49.3% to 52.5% in the former and from 51% to 54.2% in the latter. New Brunswick experienced an expansion of 2.5 percentage points, from 49.8% of homeowners in 2001 to 52.3% in 2006.

Because the growth in mortgage value in Atlantic Canada is considerably faster than the increase in home ownership in the region (0.5 percentage points in NL, 1.0 percentage point in PEI and NB, and 1.2 percentage points in NS), this means that the rate of mortgage-free home ownership is relatively lower in the Atlantic Provinces now than at the beginning of the decade. Again, widespread and easy access to low-interest mortgages during this decade helps explain this trend.

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[25] Statistics Canada. *Spending Patterns in Canada, 1999*. (Ottawa: Minister of Industry, catalogue no. 62-202-XIE, 2001), Table 1; Statistics Canada. *Spending Patterns in Canada, 2005*. (Ottawa: Minister of Industry, catalogue no. 62-202-XIE, 2006), Table 9.

[26] Statistics Canada. *Changing Patterns in Canadian Home Ownership and Shelter Costs, 2006 Census.* (Ottawa: Statistics Canada, catalogue no. 97-554-X, June 2008). Available at: http://www12.statcan.ca/english/census06/analysis/shelter/pdf/97-554-XIE2006001.pdf [accessed June 17, 2008].

[27] The data in this and the succeeding paragraphs are from Statistics Canada. *Changing Patterns in Canadian Home Ownership and Shelter Costs, 2006 Census.* (Ottawa: Statistics Canada, catalogue no. 97-554-X, June 2008), Tables 12–14, pages 36–37. Available at: http://www12.statcan.ca/english/census06/analysis/shelter/pdf/97-554-XIE2006001.pdf [accessed June 17, 2008].

In particular, changes in mortgage lending practices have made home ownership more accessible to large segments of the Canadian population and have also enticed current homeowners to take out second mortgages. The CMHC, for example, now offers mortgage insurance on "interest-only" mortgages.[28] The maximum term of mortgages is also frequently extended beyond the 25-year mortgage that was once the norm: CMHC now insures 30- and 35-year mortgages.[29] As well, financial institutions developed sub-prime mortgage programs aimed at extending mortgages to lower income households that were generally considered to constitute greater credit risks, thus prompting many of these households to jump into home ownership despite their weak finances. This sub-prime market represents about 5% of new mortgage loans in Canada (compared to 20% in the U.S.).[30]

The sub-prime mortgage crisis in the U.S. is evidence that this risky yet attractive inducement to home ownership can quickly backfire. In the U.S., mounting default rates by sub-prime borrowers led to a sharp rise in home foreclosures starting in late 2006, practically bursting the housing bubble of recent years. U.S. home foreclosures in 2007 were up 79% from the previous year. With unexpected rapidity, the sub-prime crisis quickly led to the current global credit crunch and financial crisis.

Canada has a considerably smaller sub-prime market than the U.S. and it is still too early to assess the impact of the sub-prime crisis on Canadian home ownership trends. However, there has already been some responsive tightening of the mortgage lending practices that previously facilitated increased access to home ownership in this country—with an end to 40-year mortgages and more rigorous down-payment requirements scheduled to take effect in October 2008.

3.1.2. Student Loans

Categorizing student loan debt as good debt is controversial. Student debt is here categorized in this way because it meets the basic definition of relatively low-interest loans undertaken to build assets (in this case, human and intellectual capital assets that can later leverage higher incomes). The global shift towards the knowledge economy places a growing premium on higher education and skills. Therefore, if the availability of student loans makes a post-secondary education more accessible to those who desire and have the capacity to pursue higher education, and if that education in the long run enhances wellbeing, financial security, and quality of life, then there are reasonable grounds for labelling student debt as good.

Nonetheless, certain caveats to this classification are essential, since the viability of carrying student debt depends on certain key conditions—including adequate capacity to service the debt, moderation in the absolute level of student debt burden so that it does

[28] This insurance program means that homeowners have the option to make interest-only payments for the first ten years of their mortgage, only thereafter being required to pay on the principal.
[29] Bank of Canada. *Financial System Review.* (Ottawa: Bank of Canada, June 2007), page 23.
[30] Bank of Canada. *Financial System Review.* (Ottawa: Bank of Canada, June 2007), page 8.

not encumber graduates for unreasonable periods of time following graduation, and capacity to undertake studies without compromising academic integrity and personal health through excessive paid work hours taken on by financially stressed students.

The Canada Student Loan program is administered by the National Student Loan Service Centre under contract to Human Resources and Social Development Canada (HRSDC). Students have the choice of opting for a fixed interest rate of prime + 5%, or a floating interest rate of prime + 2.5%.[31]

Based on the HRSDC student loan calculator, and assuming a prime interest rate of 4.5%, a standard 10-year (114-month) repayment period, and a loan of $30,000, monthly payments will be $361.02 (principal and interest) if the floating interest option is selected, resulting in total payments of $41,156.77 ($30,000 principal + $11,156.77 interest) over the life of the repayment. If the fixed interest option is selected, monthly payments will be $400.50 (principal and interest), resulting in payments of $45,657.54 ($30,000 principal + $16,657.54 interest).

This section looks specifically at levels of student debt at the household level, as revealed by Statistics Canada's 2005 Survey of Financial Security (SFS). Other data sources on this subject are referenced in GPI Atlantic's education report, but the SFS is used here for consistency and comparability with the other forms of debt examined.[32] What is noteworthy about all these data sources is their inadequacy in providing frequent, complete, comparable, and up-to-date trends and time series data on this important subject.

One of the possible reasons for existing data inadequacies is the complexity of the issue. Students finance their higher education through a wide variety of sources, including personal savings, Registered Education Savings Plans, parental support, employment income, grants and scholarships, and—increasingly—from government and private loan programs.

The student debt burden is becoming increasingly onerous for many Canadian households, as indicated by results from the 2005 SFS and from other data sources referenced in the GPI Atlantic education report. The 2005 SFS shows that the total amount of student debt owed to public (government) and private sources increased by 16% in real terms between 1999 and 2005. By 2005, Canadian households collectively owed $20 billion in student debt. Interestingly, the proportion of Canadian households with student loans did not change during the 1999 to 2005 time period, remaining at 12%. However the depth of the student debt burdens—the amount owing—has increased, and this explains in large part the overall growth in the value of outstanding loans. The

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[31] The summary in this paragraph and the next is extracted from the section on "Loan Administration and Repayment" in the article on *Student Loans in Canada* in Wikipedia, the online encyclopedia. Available at: http://en.wikipedia.org/wiki/Canada_Student_Loans [accessed June 22, 2008].

[32] GPI Atlantic's Educated Populace Indicators report, released on February 19, 2008, and available at www.gpiatlantic.org, offers a more detailed analysis of student debt at both the provincial and national levels using a wider range of sources [accessed February 29, 2008].

median outstanding student debt load in 2005 was $9,000—a real increase of 8% from the 1999 level.

The key factor fuelling rising student debt levels is the increase in the costs associated with higher education (including tuition, books, and cost of living expenses). Nationwide, for example, inflation-adjusted undergraduate tuition in 2007–2008 was 2.3 times higher than in 1990–1991 ($4,382 compared to $1,900). In Nova Scotia, where tuition was and remains the highest in the country, undergraduate tuition also more than doubled in real terms from $2,519 in 1990–1991 to $5,694 in 2007.[33]

There are also significant regional disparities in student debt holdings. According to the 1999 SFS, student loan debt accounted for 8% of households' total debt in Atlantic Canada, compared to just 3% nationwide. Moreover, a greater proportion of Atlantic households had student debt: 16% compared with 12% of households in both Ontario and Quebec, and just 6% in Manitoba.[34] The greater proportion of Atlantic Canadian households with student debt is perhaps not surprising—because of Nova Scotia's high student population per capita, because of the Atlantic region's higher proportion of lower and middle-income households, and because Nova Scotia and New Brunswick have the highest university tuition rates in the country.[35]

Although Atlantic Canada accounted for about 7% of the nation's population in 1999, the region's households accounted for 12% of the total Canadian student debt load in that year, or $2.1 billion, according to the 1999 SFS data. Nova Scotian households accounted for 32% of the Atlantic region's student debt load in 1999, while households in Newfoundland and Labrador held the largest share—35% of the Atlantic region's student debt.[36]

The average amount of debt held by university students is higher in Atlantic Canada than in the rest of the country. In 2006, for example, the region had the highest average student loan levels in Canada, with 66% of Atlantic students owing an average of $29,747.[37] As well, 2005 figures released by the Maritime Provinces Higher Education Commission in 2007 showed that the average amount of student debt in the Maritimes

[33] Tuition reported in 2005 dollars. Statistics Canada. *Survey of Tuition and Living Accommodation Costs for Full-time Students*. Reported in Statistics Canada. "University Tuition Fees." *The Daily.* (Ottawa: Statistics Canada, September 1, 2005, and October 18, 2007).

[34] Due to its smaller sample size, the 2005 SFS does not have the same breadth of student debt data on a regional basis as the 1999 SFS, so the comparative regional data presented here must be drawn from the 1999 SFS.

[35] Statistics Canada. *Survey of Tuition and Living Accommodation Costs for Full-time Students*. Reported in Statistics Canada. "University Tuition Fees." *The Daily.* (Ottawa: Statistics Canada, September 1, 2005, and October 18, 2007). For comparative tuition rates by province from 1990–1991 to 2007–2008, see Hayward, Karen, Linda Pannozzo, and Ronald Colman. *How Educated Are Nova Scotians: Education Indicators for the Nova Scotia Genuine Progress Index.* (Halifax: GPI Atlantic, February 2008), Figure 5, page 19. Available at: www.gpiatlantic.org [accessed February 29, 2008].

[36] The most recent provincial-level data are from the 1999 SFS.

[37] Berger, Joseph, Anne Motte, and Andrew Parkin. "Chapter Five – Student Debt: Trends and Consequences." *The Price of Knowledge: Access and Student Finance in Canada.* (Montreal: The Canada Millennium Scholarship Foundation, November 2006), page 3.

exceeded $27,000.[38] The large student loan burden in the region in part reflects the substantial rise in tuition since the early 1990s, particularly in Nova Scotia and New Brunswick. Due to cut-backs in federal and provincial funding, universities across Canada, and especially in the Maritimes, have become increasingly reliant on tuition as a revenue source.[39]

Based on recent student loan trends, the student debt burden in the Atlantic region could continue to grow as average student loans continue to rise, and as lower and middle-income students become ever more dependent on loans to finance their education. In 1999, for example, 60% of graduates from Maritime universities relied on student loans. By 2004, 73% of Maritime graduates had student loans—quite a sharp increase in a relatively short period of time. According to the Maritime Provinces Higher Education Commission, the magnitude of student debt in different households is influenced by factors such as family income, parental education, and program of study.[40]

The burden of student debt may influence an individual's decisions regarding further education and career development—with the most heavily burdened undergraduates perhaps less likely to undertake graduate work that would deepen their debt load. This again has equity implications for society at large, as students carrying less debt may have more options to continue their studies and undertake further training. The magnitude of student debt can also influence or postpone decisions regarding investments in housing, starting a family, and other financial investments. These considerations may constrict graduates' options, which in turn may have a negative impact on their longer term financial security, quality of life, and wellbeing, as well as on their capacity to weather unexpected financial crises.

On the other hand, as noted at the start of this section, the financing of higher education also clearly needs to be considered in the context of the benefits that a higher education yields. Higher education may certainly be seen as an investment that increases earning potential and flexibility in the job market to say nothing of the intrinsic benefits for wellbeing of learning and expanding knowledge. According to the Association of Universities and Colleges of Canada (AUCC): "Between 1990 and 2005, 1.7 million jobs

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[38] Average amount of student debt in the Maritime Provinces: $27,100 in NS, $32,400 in PEI and $26,200 in New Brunswick. Hayward, Karen, Linda Pannozzo, and Ronald Colman. *How Educated Are Nova Scotians: Education Indicators for the Nova Scotia Genuine Progress Index.* (Halifax: GPI Atlantic, February 2008), Figure 3a, page 15. Available at: www.gpiatlantic.org [accessed February 29, 2008].

[39] For example in Nova Scotia in 2002–2003, 30.5% of total university revenues derived from student fees—the highest proportion in the country—while revenue from provincial sources was the lowest in the country (41%). The Canadian averages were 20.5% and 57%, respectively. Source: Canadian Association of University Teachers (CAUT). "Public or Private? University Finances, 2002–2003." *CAUT Educational Review* (vol. 6, no. 3, 2004). Original data source is Statistics Canada's Financial Information of Universities and Colleges (FIUC) Survey. Available at: http://www.caut.ca/uploads/educationreview6-3.pdf [accessed January 8, 2008]. See also Hayward, Karen, Linda Pannozzo, and Ronald Colman. *How Educated Are Nova Scotians: Education Indicators for the Nova Scotia Genuine Progress Index* (Halifax: GPI Atlantic, February 2008), Figure 7, page 21. Available at: www.gpiatlantic.org [accessed February 29, 2008].

[40] Maritime Provinces Higher Education Commission. *Five Years On: A Survey of Class of 1999 Maritime University Graduates.* (Fredericton: Maritime Provinces Higher Education Commission, 2006).

were created in Canada for university graduates. Over the same period of time 1.3 million jobs were lost for those with a high school education or less."[41]

This is the fundamental reason that—despite the troubling trends and major caveats described above and in more detail in GPI Atlantic's recently released Educated Populace Indicators report (February 2008)—this report still generally classifies student loans here as good debt in the sense that such debt builds long-term assets at generally reasonable interest rates. Chapter 5 further discusses how households are faring in managing their student debt.

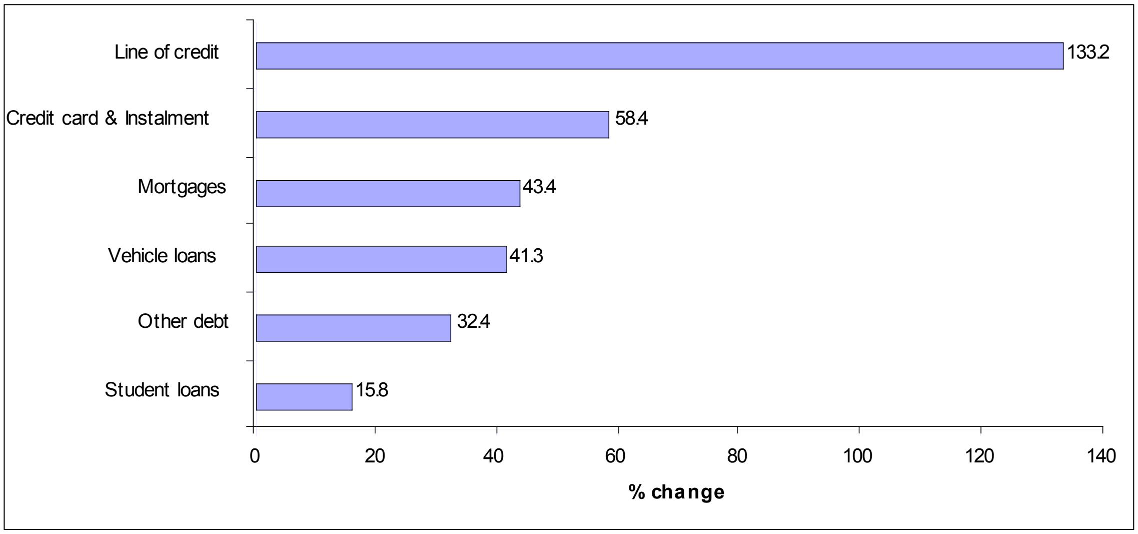
3.2. Not so Good Debt: Financing Consumption

Consumer spending in Canada continues to outpace disposable income, and so Canadians are increasingly financing their spending through lines of credits and other sources of consumer credit. The fastest growing source of household debt in Canada is lines of credit, followed by credit cards and instalment debt, as illustrated in Figure 3.3 below.

Borrowing for the purpose of acquiring material assets with a relatively short lifespan (such as big screen televisions or cars that depreciate rapidly—unlike homes that tend to appreciate in value), and borrowing for financing current consumption, are here considered not so good forms of debt. In many cases, these types of borrowing also tend to be short-term consumption "fixes" that do not build wealth over the longer term but instead may undermine long-term financial security if debt-servicing costs create excess financial pressures. As well, such loans tend to come with higher borrowing charges than the mortgages and student loans considered in the previous sections.

[41] Association of Universities and Colleges of Canada (AUCC). *Backgrounder: Why Higher Education and University Research Matter: Facts and Figures*. Available at: http://www.aucc.ca/_pdf/english/reports/2006/facts_figures_02_23_e.pdf [accessed August 8, 2007].

Figure 3.3. Growth in Household Debt (Percent), by Source, Canada, 1999–2005



Source: Statistics Canada, Summary Tables Online. *Income, Pensions, Spending and Wealth: Assets and Debts Held by Family Units, Total Amounts*. Available at: http://www40.statcan.ca/l01/cst01/famil109.htm?sdi=assets%20family%20units [accessed June 21, 2007].

3.2.1. Lines of Credit

Lines of credit are the fastest growing source of household debt in Canada and are, therefore, gradually becoming a larger component of overall debt. Line of credit debt owed by households totalled $68 billion in 2005—133% greater in real terms than in 1999, according to the 2005 SFS. The significant growth in total outstanding line of credit balances is due both to the considerably greater proportion of Canadians now holding this form of debt and to a sharp increase in median line of credit balances.

Lines of credit are a form of borrowing that sets pre-approved credit limits that can be drawn from by the borrower at any time for a wide variety of purposes. Unlike conventional loans, lines of credit do not have pre-determined repayment schedules. Instead, like cash advances on credit cards, interest is paid whenever the credit is used and for as long as there is an outstanding balance.

According to the 2005 SFS, one-fourth of Canadian households had line of credit balances in 2005, up sharply from 15% of households in 1999. The median line of credit balance in Canada of $9,000 in 2005 was 56% more in real terms than in 1999. Lines of credit accounted for 16% of the increase in the total Canadian household debt load between 1999 and 2005, even though—as a share of total debt—lines of credit accounted for 9% of the total in 2005 and less than 6% in 1999. In 1984, as indicated in the Assets and Debt Survey of that year, the total outstanding balance on credit lines in Canada was negligible compared to present amounts.

The value of line of credit debt in Atlantic Canada was $1.5 billion in 1999 (in 2005 constant dollars). According to the 1999 SFS, this type of debt accounted for 6% of the total Atlantic Canadian household debt burden in 1999—about the same as the national average. Nova Scotia alone accounted for over 50% of the Atlantic region's total outstanding line of credit balance in that year.

Unfortunately, the 2005 SFS does not allow regional breakdowns by source of debt, due to the smaller sample size of that survey. Assuming that line of credit debt in Atlantic Canada as a share of the region's total debt remained the same as the 1999 share (6%), then line of credit debt in Atlantic Canada can be estimated at $2.5 billion in 2005. However, it is more likely that lines of credit represent a greater share of regional debt given that, at the national level, lines of credit have become a significantly larger source of household debt. If the 2005 line of credit share of total household debt in Atlantic Canada matched the national share (9%), then the 2005 line of credit debt in Atlantic Canada can be estimated at about $3.7 billion.

There are many ways in which households use lines of credit. Households draw on lines of credit to take vacations, make purchases, or pay off other higher interest debt (such as credit card debt). Lines of credit have also been used towards asset accumulation, for example to purchase a vehicle. As well, a popular use of lines of credit has been to undertake home renovations, which in turn may increase the value of homes. The 2006 CMHC Canadian Housing Observer reports that home renovation spending reached $40 billion nationally in 2005—some of which was financed through lines of credit.[42]

Lines of credit can also be used as a form of "income smoothing" which may actually enhance wellbeing and quality of life. For example, households may tap into their lines of credit for short periods of time for family purposes—such as taking unpaid time off work to spend with children or to extend the period of free time during pregnancy and infancy of children. As well, lines of credit can help households weather the impact of economic downturns in labour and financial markets. Because of their flexibility and the ability to draw on them as needed with few restrictions, lines of credit have, therefore, become increasingly popular for a wide range of uses.

The many different potential uses of lines of credit again indicate that the boundary lines between our classifications in this chapter are not rigid, just as we noted previously, for example, that student loans can *generally* be classified as good debt in building long-term assets at low interest, but that this classification is subject to major caveats related particularly to the magnitude of the debt and capacity to service it. To the extent that lines of credit are used to build assets (such as through home improvements), rather than simply to finance current consumption, they may well be classified as good rather than not so good debt.

In fact, the popularity and growth of line of credit debt does not necessarily indicate an increased use of debt to finance current consumption. The growing use of lines of credit

[42] Canadian Mortgage and Housing Corporation (CMHC). *Canadian Housing Observer 2006.* (Ottawa: CMHC, 2006), page 33.

is also due to changes in financial lending practices that have made line of credit debt much more accessible. As a result, a positive trend, in terms of at least one criterion for the classification of debt in this chapter, is the substitution of lines of credit for other forms of more expensive debt (including credit card debt in some cases). A decade ago, lines of credit were difficult to get and carried far higher interest charges than they generally do today. However in the past several years, banks have made lines of credit much easier to access, particularly when they are secured by assets such as homes. Indeed, in recent years, the majority of households with line of credit debt have secured their lines of credit through their home equity.[43]

Easier access to lines of credit has, therefore, benefited wealthier households, who have more substantial assets with which to secure such credit lines. Not surprisingly, the 2005 SFS found that wealthier households rely more heavily on line of credit borrowing than their poorer counterparts. This is largely due to the fact that higher wealth households are more able to establish lines of credit by borrowing against their home equity, while poorer households are less likely to have home equity and are more likely to be renting their homes, making it more difficult for them to obtain lines of credit.

Depending on how households use their lines of credit, this form of debt may or may not contribute to asset accumulation and towards enhancing future financial security. In general, to the extent that lines of credit are used to finance current consumption, they are less likely to contribute to long-term financial security and may undermine such security if households have trouble servicing higher cumulative debt loads or paying down their lines of credit.

3.2.2. Vehicle Loans

Vehicle loans account for about 6% of Canadians' total debt burden, according to Statistics Canada's 2005 SFS. Some households purchase their vehicles outright while others rely on financing through bank loans, lines of credit, and automobile dealerships. After home ownership, vehicle ownership is typically the second most important physical asset for households. However, unlike homes, which tend to appreciate in value, vehicle values depreciate rapidly. For this reason, vehicle loan debt is categorized as a not so good debt.

The cost of vehicle loans may also be burdensome for households to service, especially when added to other ongoing debt service charges (mortgages, credit cards, etc). In other words, the capacity of a household to manage and service its debt is assessed according to total debt charges. So an increment in one type of debt like vehicle loans—while not necessarily unreasonably burdensome in itself—may push a household beyond its debt-servicing capacity when added to other debt holdings.

[43] Statistics Canada, Pensions and Wealth Survey Sections. *The Wealth of Canadians: An Overview of the Results of the 2005 Survey of Financial Security.* (Ottawa: Minister of Industry, catalogue # 13F0026MIE, December 2006), page 17.

Outstanding vehicle loans in 2005 totalled $46 billion, a real growth of 41% from 1999. The median vehicle loan value grew by 6% between 1999 and 2005, from $10,400 to $11,000 (in 2005 dollars). Borrowing for vehicle purchases contributed to 6% of the increase in Canadian household debt between 1999 and 2005. The proportion of Canadian households with vehicle loans in 2005 was 26%, up considerably from 21% in 1999. In other words, more Canadians are borrowing to buy cars and they are borrowing in larger amounts.

Vehicle loans comprise a considerably larger share of household debt in Atlantic Canada than nationally. In 1999—the latest year for which regional breakdowns of debt sources are available—13% of household debt in the Atlantic region derived from vehicle loans compared to 6% nationwide. Vehicle debt is the second largest component of household debt in the Atlantic region after mortgages, whereas lines of credit are the second largest component of debt for households nationally.

Assuming that the ratio of vehicle loans to total debt in Atlantic Canada has held fairly steady in the years since 1999, it can be estimated that Atlantic Canadian families owed more than $5.4 billion in vehicle debt in 2005.[44] The only other part of the country where vehicle debt constitutes such a large portion of total debt, according to 1999 SFS data, is Saskatchewan, where more than 13% of total debt is also attributable to vehicle loans. Within Atlantic Canada, Nova Scotia's rate of 12% for vehicle debt as a proportion of total debt was the lowest in the region, while New Brunswick's rate of 15% was the highest.

Interestingly, the importance of vehicle loans in Atlantic Canada does not appear to have anything to do with the level of new motor vehicle purchases, but is perhaps reflective of the weaker financial capacity of the region's households—including a lesser ability to pay cash for vehicles and to pay off vehicle loans quickly. For example, in 1999 (the latest year for which detailed regional breakdowns of debt sources are available), Atlantic Canada accounted for a greater share of total Canadian vehicle debt than its share of total new vehicles sold in Canada. In 1999, the region accounted for less than 7% of the value of new vehicle sales in Canada[45] but accounted for an estimated 10% of the value of all Canadian vehicle loans. Thus, the region's share of Canadian vehicle debt was almost one and a half times the region's share of new vehicle sales.

[44] Statistics Canada, Income Statistics Division. *Survey of Financial Security,* 2005. Based on a total Atlantic region household debt of $41 billion in 2005.
[45] Statistics Canada. *CANSIM Table 079-0003 – New Motor Vehicle Sales, Canada, Provinces and Territories, Monthly*; Statistics Canada. *CANSIM Table 051-0001 – Estimates of Population, by Age Group and Sex for July 1, Canada, Provinces and Territories, Annual.*

3.3. The Bad and the Ugly: High Interest Credit Card Debt and Payday Loans

Bad and ugly debts are here classified as those that have substantial carrying costs and that fail to build long-term assets. These debts are often incurred by households to deal quickly with income shortfalls or short-term cash emergencies and to cover current consumption needs. In other circumstances, households tap into these credit sources for unnecessary spending that may compromise long-term financial security.

Credit card debt here does not refer to the simple use of credit cards for convenience purposes, when regular monthly payments are made to pay off outstanding balances, but rather to carrying credit card debt at the typically high interest rates charged by credit card companies when monthly payments do not pay off balances. Relying on credit card debt and payday loans to cover unexpected household needs, bill payments, and other budgetary shortfalls generally signifies some level of financial insecurity, since such high interest charges are rarely incurred voluntarily. The growing prominence of these higher cost debt sources may have troubling implications for many households' longer term financial security.

3.3.1. Credit Card and Instalment Debt

There were more than 60 million Visa and Mastercard credit cards in circulation in Canada in 2006. This is twice the number of cards in circulation in 1995 and four times the number in 1985.[46] According to the Canadian Bankers' Association, Canadian adults hold an average of three credit cards, including those issued by banks, retail stores, and gasoline vendors. In the United States, the average person has four credit cards.

With average interest rates ranging from 18% to 20%, credit card balances constitute one of the most expensive types of debt. The high cost of credit card debt can erode the financial security of those households unable to make adequate monthly payments on their outstanding balances. Even though credit card debt may help households acquire assets like household appliances, for example, the costs associated with servicing outstanding balances can quickly negate household asset gains, deplete resources, and increase financial insecurity.

Credit card debt is the second fastest growing source of household debt load after lines of credit. Canadian households owed $26 billion on their credit cards in 2005, up 58% in real terms from 1999. The median credit card balance of $2,400 in 2005 was 16% higher in real terms than in 1999. However, the share of Canadian households with credit card debt rose only marginally—from 38% of all households in 1999 to 39% in 2005. The modest increase in the proportion of households with credit card debt combined with the

[46] Canadian Bankers Association. *Credit Card Statistics*. (October 2006). Available at: http://www.cba.ca/en/ViewDocument.asp?fl=6&sl=110&tl=&docid=421 [accessed August 8, 2007].

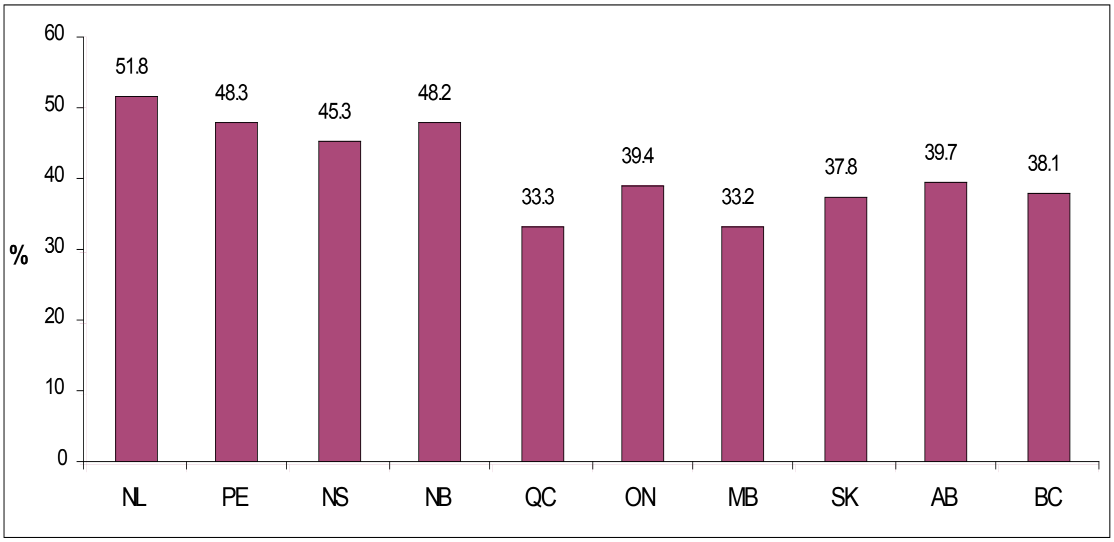
substantial increase in the real value of credit card debt from 1999 to 2005 suggests that those households that owe a balance on their credit cards are owing a lot more than they did a few years ago and / or having a harder time paying off their balances.

Despite being the second fastest growing source of household debt, credit card balances remain a relatively small proportion of total Canadian debt. In 2005, credit card debt accounted for just 3.4% of total household debt, up marginally from a share of 3.2% in 1999. Households in Atlantic Canada have a substantially larger share of their overall debt tied up in credit card balances than the national average. In 1999, the most recent year for which regional breakdowns by debt component are available, 5% of total household debt in the Atlantic region was owed on credit cards, compared to just 3.2% nationally.

Extrapolating from the 1999 SFS, in which credit card debt accounted for 5% of the region's total household debt level, the outstanding balance on credit card debt in Atlantic Canada may be estimated to exceed $2 billion in 2005, compared to $1.3 billion in 1999 (2005 dollars). This estimate conservatively assumes that the ratio of credit card debt to the total Atlantic region debt of $41 billion in 2005 has remained constant at 5% between 1999 and 2005. It does not account for the reality that credit card debt has been the second fastest growing source of household debt load in Canada, and, therefore, quite likely now exceeds 5% of the total debt burden in Atlantic Canada.

Atlantic Canada accounted for 8% of the total Canadian credit card balance in 1999, roughly on par with the region's share of the national population. The median credit card balance in 1999 in the Atlantic region ($1,700 in 2005 constant dollars) was lower than the national average ($2,074). However, a larger proportion of Atlantic Canadian households have outstanding credit card balances than the national share. In 1999, 48% of Atlantic Canadian households had credit card debt (outstanding balances on their credit cards), far exceeding the 38% national average in that year (see Figure 3.4 below).

Figure 3.4. Proportion of Households with Credit Card Debt (Percent), by Province, 1999



Source: Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 1999.

3.3.2. Payday Loans

In some circumstances, households are unable to access credit from conventional financial institutions. Their inability may be rooted in unemployment, poor credit history, prior bankruptcies, limited level of savings, or lack of physical assets (i.e., home ownership) or other financial assets that can serve as equity against loans. A popular and growing source of credit for perceived high-risk borrowers—those unable to access conventional credit from financial institutions and those requiring small, quick, and short-term loans—is payday lenders.

A payday loan is a short-term loan, generally for a relatively small amount, provided by a non-traditional lender. The average payday loan is around $280 for 10 days. This type of loan is seen as convenient because it requires little or no credit check. Although there are limited data available on the level of debt outstanding from this credit source (in part because many transactions are informal and unrecorded), it has been estimated that over 1,300 payday loan outlets are in operation across Canada.[47]

A Statistics Canada study found that, in 2005, 3% of Canadian households had tapped into payday loans within the previous three years.[48] Half (50%) of the households that relied on payday loans were from the lowest wealth quintile, and nearly 30% were from

[47] Ziegel, Jacob. "Pass the Buck: Ottawa Has Paramount Jurisdiction over Interest Rate Regulation." *The National Post.* (November 10, 2006). Available at: http://www.canada.com/nationalpost/news/story.html?id=b3efb360-60fc-4c86-8818-b579b31fcd63 [accessed August 8, 2007].
[48] Pyper, Wendy. "Payday Loans." *Perspectives on Labour and Income.* (Ottawa: Statistics Canada, vol. 8, no. 4, catalogue #75-001-XWE, April 2007) [accessed September 2, 2007].

the second lowest wealth quintile. The Statistics Canada study also found that unattached individuals, young married couples with children, and households with earners younger than 24 years of age were more likely to borrow from payday lenders than married couples without children and households with older earners. The predominance of poorer households relying on payday loans indicates that the poorest Canadians are often paying the highest interest on their debt and points to the financial stress that such loans frequently signify.

Aside from the convenience and ease of access that comes with few credit checks, why do households turn to these very high interest loans? According to Statistics Canada data, the primary reasons households turn to payday loans are to pay for necessities and to cover unexpected expenses. Statistics Canada found that families that were behind in bill or loan payments were more than four times as likely to have used payday loans as those not in that predicament.[49]

A 2007 survey conducted by the Canadian Association of Community Financial Service Providers, however, indicated that only about 15% of surveyed payday borrowers in Nova Scotia and New Brunswick had no other alternatives, while the majority of borrowers reported having bank accounts, overdraft protection, and major credit cards. A smaller proportion of borrowers reported having personal loans and lines of credit.[50] It appears that a general lack of access to cash explains the resort to payday loans by many borrowers. For example, those with less than $500 in their bank accounts were significantly more likely to use payday loans than those with more than $2,000 in cash deposits.[51]

Despite their apparent convenience, payday loans often come with exorbitant carrying costs depending on the size, conditions, and repayment period of the loans. Statistics Canada cites an example of such interest charges in the case of a family borrowing $100 for two weeks being subject to interest charges and other fees that, on an annualized basis, range from 335% to 650%.[52] Often, the desperate circumstances that propel some to seek these loans may force them to accept interest rates that could be considered usurious. Even though the Criminal Code stipulates that it is a criminal offence to charge more than 60% interest per year, there are few standards regulating the interest rates that payday loan lenders charge.

The exorbitant cost of payday loans has prompted governments to try to regulate the payday loan industry more effectively. In 2007, the federal government passed Bill C-26,

[49] Pyper, Wendy. "Payday Loans." *Perspectives on Labour and Income.* (Ottawa: Statistics Canada, vol. 8, no. 4, catalogue #75-001-XWE, April 2007), page 10 [accessed September 2, 2007].
[50] Pollara. *First-Ever Survey of Payday Loan Consumers in New Brunswick and Nova Scotia*. Survey results are available through the Canadian Payday Loan Association website, http://www.cpla-acps.ca/english/mediastudies.php [accessed November 12, 2007].
[51] Canadian Association of Community Financial Service Providers (2005). "Understanding Consumers of Canada's Payday Loans Industry." Survey results are available through the Canadian Payday Loan Association website, http://www.cpla-acps.ca/english/mediastudies.php [accessed September 2, 2007].
[52] Pyper, Wendy. "Payday Loans." *Perspectives on Labour and Income.* (Ottawa: Statistics Canada, vol. 8, no. 4, catalogue #75-001-XWE, April 2007), page 6 [accessed September 2, 2007].

enabling provinces to implement regulations to protect the roughly two million Canadians who use payday loans annually in this country.

As a result, following a decision by the Manitoba Public Utility Board on April 4, 2008, Manitoba is now the first province in Canada to regulate the rates charged by payday loan lenders. For loans to those collecting employment insurance or social assistance or for loans in excess of 30% of the borrower's expected net pay, the maximum cost of credit that payday lenders in Manitoba can charge is 6% of the loan amount. For other loans, the maximum is 17% of the first $500, 15% from $501 to $1,000, and 6% from $1,001 to $1,500. Manitoba has also set a $20 maximum to be charged on default, and a maximum of 2.5% interest a month on overdue loans, not to be compounded.[53]

In November 2006, the Nova Scotia government introduced legislation-setting guidelines for payday lenders along with penalties for non-compliance.[54] According to this legislation, the Nova Scotia Utility and Review Board is now responsible for determining the interest rate ceiling payday lenders can charge.[55] Extensive hearings were held by the Board in the spring of 2008 under the Consumer Protection Act as a prelude to the Board "setting the maximum cost of borrowing and fees, including charges for extensions or renewals, relating to loans up to $1,500 granted for periods of 62 days or less."[56] As this report was being prepared, no decision had yet been rendered.

Some experts argue that the popularity of payday loans suggests that the industry fills a gap in the credit market by providing short-term, flexible loans not available from conventional sources. Despite their popularity, payday loans are colloquially classified here as "ugly" because they rarely build assets and generally carry extremely high costs. Poorer households are most likely to rely on payday loans and are most susceptible to the massive financial burden attached to these loans. Yet, these households are generally the least able to service such loans. Outstanding payday loans frequently signify current financial stress for which the loans themselves may at best provide a very temporary band-aid solution.

[53] Payday Loan Hearings (PD-07-001) before the Nova Scotia Utility and Review Board, *Response Regarding Manitoba Decision,* April 23, 2008. Submission by 310-LOAN. Available at: http://www.310loan.com/310-LOAN-Response-to-MB-Decision.pdf [accessed June 17, 2008].

[54] An Act to Amend Chapter 92 of the Revised Statutes, 1989, the Consumer Protection Act, Chapter 25, November, 23, 2006. Available at: http://www.gov.ns.ca/legislature/legc/PDFs/annual%20statutes/2006%20Fall/c025.pdf [accessed June 17, 2008].

[55] Province of Nova Scotia. "Enhancements to the Health System, Consumer Protection Measures Part of Fall Session." (Halifax: Office of the Premier, November 23, 2006). Available at: http://www.gov.ns.ca/news/details.asp?id=20061123008 [accessed August 5, 2007].

[56] Nova Scotia Utility and Review Board. "Payday Loans Documents." Available at: http://www.nsuarb.ca/index.php?option=com_content&task=view&id=36&Itemid=27 [accessed June 17, 2008].

4. A Closer Look at Debt Holders

We have seen that households borrow for several reasons: to invest in asset accumulation, to supplement their incomes in financing consumption, or to bridge unexpected expenses. Chapters 2 and 3 of this report revealed that the levels of both household debt and assets in Canada are at an all-time high and that wealth has grown dramatically in the past two decades. We also saw that, although debt has been rising at a faster relative rate than assets in the most recent period (1999–2005), the appreciation of asset value in absolute terms greatly exceeds the expansion of debt.

Experts note that the level of Canadian consumer liquidity (cash) is also at record levels in this country. In aggregate, however, cash is not flowing towards reducing debt, which seemingly suggests that households with excess cash are not the ones saddled with outstanding debts.[57] So, who is doing the borrowing? Indeed, we have noted the limited utility of the aggregate figures presented in previous chapters, since they conceal vast differences among different groups of Canadians with respect to financial security.

It is, therefore, time to begin breaking down the aggregates to understand more about different categories of debt and asset holders. While time and resources limited our focus in this report to an examination of debt holders, future updates should provide at least the same level of detail in understanding the characteristics of asset holders by type of asset.

An examination of borrowing patterns by household characteristics can help explain the differing levels of financial security and wealth among different types of households. The evidence indicates that wealthy households tend to have the financial capacity and know-how to leverage debt to build assets and increase their wealth instead of relying on debt to finance current consumption. Poorer households, by contrast, tend to rely on debt to pay for consumption needs and to bridge income shortfalls, which, in turn, signifies financial instability. Indeed, the evidence indicates that the borrowing patterns of poorer households frequently perpetuate and deepen the cycle of financial insecurity by adding debt-servicing pressures to already stressed financial circumstances. In sum, current borrowing patterns in Canada may work to increase rather than narrow both the wealth gap and the financial security gap.

This chapter, therefore, delves further into debt trends to understand the household characteristics of different categories of borrowers, their borrowing patterns, and their debt preferences. Unless otherwise stated, this analysis draws primarily on data from Statistics Canada's 2005 Survey of Financial Security (SFS).[58] Unfortunately, provincial data generally cannot be extracted from the 2005 SFS due to the much smaller sample

[57] Tal, Benjamin. "Mortgage Risk – Canada vs. U.S." *Consumer Watch.* (Toronto: Canadian Imperial Bank of Commerce (CIBC) World Markets, March 16, 2007), page 3.
[58] Data kindly provided to GPI Atlantic by Statistics Canada, Income Statistics Division.

size of that survey compared to the 1999 SFS, which offers far more data at the provincial level.

However, in the interest of using the most recent available Statistics Canada data, the following analysis focuses primarily on the characteristics of debt holders at the national level. We assume here that national debt trends by household characteristics reflect, and may therefore serve as a proxy for, sub-national (regional and provincial) trends. For regional breakdowns, some reference is also made in the following pages to the 1999 SFS. We hope that increased demand for these data at the sub-national level will prompt Statistics Canada to conduct more frequent Surveys of Financial Security with a sample size sufficient to provide these detailed data by province.

4.1. Debt by Selected Net Worth Quintiles

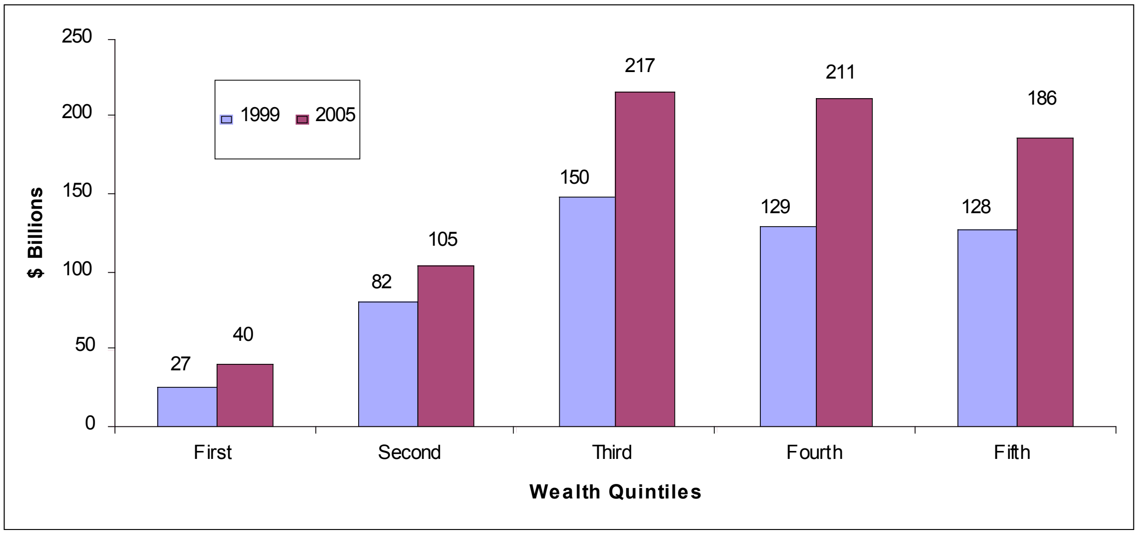
Over two-thirds of Canadian households owe money, according to Statistics Canada's 2005 SFS. The magnitude of their indebtedness and the different sources of their debt (i.e., mortgages, lines of credit, credit card debt, student loans, etc.) differ sharply according to financial circumstances. This section, therefore, examines debt holdings by wealth quintile, with a particular focus on trends since the late 1990s among households in the lowest, middle, and top of Canada's wealth quintiles.[59]

The level of indebtedness of all five wealth quintiles grew significantly between 1999 and 2005. However, the 2005 SFS reveals significant differences amongst the wealth quintiles both in magnitude and in sources of debt. A few highlights of the differences discussed in this section are that:

- in absolute terms, the middle wealth quintile holds more debt than any other group, followed closely by the second wealthiest group (Figure 4.1 below)
- households with greater wealth account for most line of credit debt (the fastest growing source of debt, which also tends to require substantial existing equity)
- lower wealth households hold most of Canada's student debt
- mortgage debt is concentrated in the middle and upper-middle wealth groups (Figure 4.2 below)

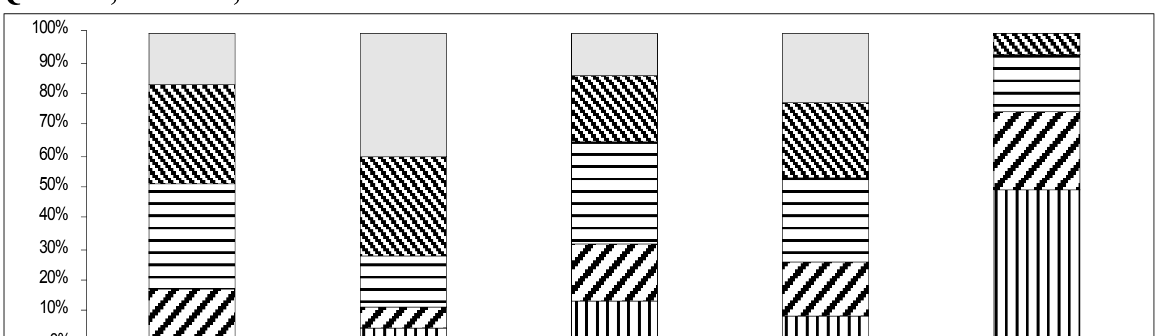
[59] While this study focuses on three wealth quintiles, the 2005 SFS has data on the debt holdings of each of the five wealth quintiles. The SFS breaks down Canadian households into five wealth groups (quintiles), ranking the groups from the poorest 20% of households (the first quintile) to the wealthiest 20% of households (fifth quintile). By definition, each quintile contains the same number of households (20% of the total number of households).

Figure 4.1. Household Debt (Billions, 2005 Constant $), by Wealth Quintile, Canada, 1999 and 2005



Source: Statistics Canada, Summary Tables Online. *Income, Pensions, Spending and Wealth: Assets and Debts Held by Family Units, Total Amounts, by Net Worth Quintile*. Available at: http://www40.statcan.ca/l01/cst01/famil115a.htm [accessed June 28, 2007].

Figure 4.2. Share of Household Debt (Percent), by Source Held by Each Wealth Quintile, Canada, 2005



	Mortgage (Home)	Line of Credit	Credit Card	Vehicle	Student Loans
Fifth	16.9	40	14	22.1	
Fourth	31.9	31.4	20.6	24.5	6.4
Third	33.7	16.3	32.8	27.1	17.9
Second	15.3	6.9	19.2	17.6	23.1
First	2.2	5.4	13.4	8.7	46.9

Source: Statistics Canada, Summary Tables Online. *Income, Pensions, Spending and Wealth: Assets and Debts Held by Family Units, Total Amounts, by Net Worth Quintile*. Available at: http://www40.statcan.ca/l01/cst01/famil115a.htm [accessed June 28, 2007].

4.1.1. *Middle Quintile*

Households in the middle (third) net worth quintile bear the largest portion of Canada's debt. In 2005, the value of their debt totalled $217 billion, a real increase of 45% from the 1999 level. The middle quintile accounted for 29% of all outstanding household debt in Canada, similar to the 1999 share. Atlantic Canadian households in this quintile appear to account for a somewhat smaller share of total debt than in other regions. In 1999, households in the middle quintile accounted for 25% of total regional household debt in Atlantic Canada, compared to 27% in Quebec and 32% in British Columbia and Ontario.

The largest source of debt for Canadian households in the middle wealth quintile is their homes. More than three-quarters of their debt in 2005 was in mortgages on their main homes—the highest share amongst all quintiles. The middle quintile collectively owed $164 billion in home mortgages. This amount was equivalent to more than one-third (34%) of the total value of all Canadian home mortgages in 2005 (see Figures 4.2 above and 4.3 below).

Middle wealth households are also more likely to hold mortgage debt on principal residences than households in other quintiles. In 2005, 57% of these households had such mortgages—a larger proportion than in any other quintile and up from 54% in 1999. Between 1999 and 2005, the median mortgage on principal residences of the middle quintile grew by 12% (in 2005 constant dollars).

In addition to mortgages, middle wealth households are more likely than other quintiles to have vehicle loans and credit card balances. In 2005, over one-third of middle wealth households had vehicle loans, which accounted for nearly 6% of this quintile's total debt burden—the second largest component of debt after home mortgages. The middle wealth group accounted for 27% of the total value of outstanding vehicle loans in Canada (see Figures 4.2 above and 4.3 below). They also have a larger credit card balance than any other quintile: $8.4 billion or 33% of Canada's total credit card debt. Approximately 46% of middle quintile households have credit card debt, which accounts for 4% of their total debt burden.

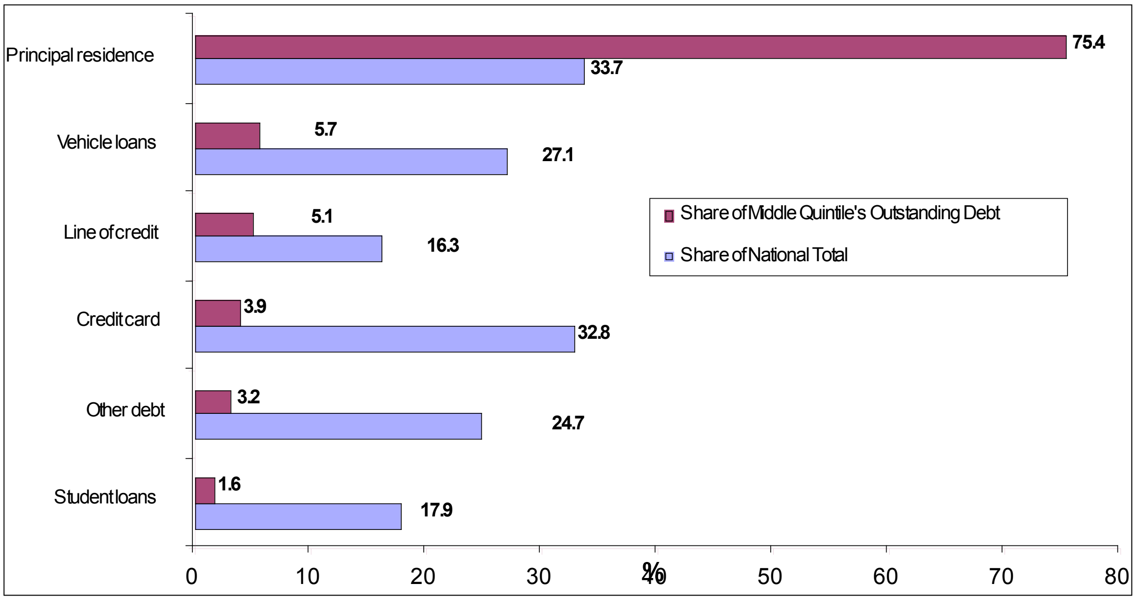
Lines of credit are becoming an increasingly popular source of credit for households in the middle wealth quintile, with 30% of households owing a balance on their lines of credit in 2005, up sharply from 19% in 1999. Line of credit debt accounts for roughly 5% of the total debt owed by the middle wealth group, but it still comprises a relatively smaller share of the total Canadian line of credit debt (16.3%) than that held by the upper two wealth quintiles, which together account for 71.4% of all line of credit balance.

Households in the middle wealth quintile have experienced the largest *increase* in student debt: up by 74%, or $1.5 billion, between 1999 and 2005.[60] However, student loans represent the smallest source of debt for the third quintile, accounting for less than 2% of this quintile's total debt burden in 2005. Approximately 10% of middle quintile households have student loans, a marginal increase from 9% in 1999. The fact that the

[60] Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 2005.

increase in both total and median student debt held by the middle quintile far exceeds the growth in the proportion of middle wealth households with student debt suggests that those who are tapping into student loans are taking on deeper levels of debt.

Figure 4.3. Key Sources of Debt for Canada's Middle Wealth Quintile (Percent), 2005



Source: Statistics Canada, Summary Tables Online. *Income, Pensions, Spending and Wealth: Assets and Debts Held by Family Units, Total Amounts, by Net Worth Quintile*. Available at: http://www40.statcan.ca/l01/cst01/famil115d.htm [accessed August 19, 2007]. Calculations of shares by GPI Atlantic.

4.1.2. Poorest Quintile

Households in the poorest (first) wealth quintile have by far the least amount of debt, in absolute terms, of any quintile. They are also less likely to borrow than households in the other quintiles. According to the 2005 SFS, 61% of families in the first quintile had debt (unchanged from 1999) compared to 78% of middle quintile households and 63% of households in the wealthiest quintile. The lower likelihood of borrowing probably owes more to the inability to access credit than to choice.

Unlike all other wealth groups, the poorest quintile owes more in debt than it owns in assets, indicating "negative wealth" (assets minus debts). The poorest 20% of Canadian households owed $40 billion in debt in 2005, while possessing only $34 billion in assets. Many poorer Canadian households have limited financial security and may not have the financial means to weather unexpected expenditures (like a needed repair to a vehicle or home), or crises like job loss, sickness, disability, or death of a prime earner. This insecurity in turn has negative implications for wellbeing. A considerable portion of the assets held by poor households (like homes) are not liquid—i.e., cannot easily be converted to cash. Moreover, the gap between debts and assets and the consequent level of financial insecurity in this quintile may have even more serious implications than indicated by the simple dollar figure comparison.

Atlantic Canadian households in the lowest wealth quintile are more likely to be in debt than poor households in other regions. In 1999, 69% of the region's lowest wealth households had debt compared to 56–67% of lowest wealth households in other parts of the country. Households in the second lowest quintile also had a higher propensity to have debt in Atlantic Canada (75%) than in other regions. The 1999 SFS shows the poorest 20% of Atlantic Canadian households owed $2.5 billion in debt in 1999 (2005 dollars).[61] The lowest wealth quintile also held a correspondingly greater share of total regional debt in Atlantic Canada than in other regions: 10% compared to 5–6% in other regions.

Credit card balances are the most pervasive source of debt for Canada's low wealth households, likely because credit cards are more easily accessible than other types of borrowing options offered by financial institutions. The proportion of households in this first quintile with credit card debt increased steeply from 34% in 1999 to 40% in 2005. However, the median value of the credit card balance owed by households in the poorest quintile in 2005 was lower than in 1999. Atlantic Canada had a greater proportion of low wealth households with credit card debt in 1999 (42%) than other regions of the country, where the proportion of first quintile households with credit card debt ranged from 39% in Ontario to 30% in Quebec.

Student debt is the second biggest source of indebtedness for the poorest Canadian households. Approximately 25% of households in the poorest quintile had outstanding student loans in 2005, the same proportion as in 1999. By far the largest share of student debt in Canada is owed by households in the bottom 20% wealth quintile. The poorest wealth group owed $9.4 billion in student loans in 2005, and held 47% of all student debt in Canada. Indeed, student loan debt is disproportionately concentrated in the poorest 40% of Canadian households, which together held 70% of all student debt in the country in 2005 (see Figure 4.2 above).

The heavy student debt load held by the poorest Canadian households is largely a function of the fact that poor households tend to be younger and to comprise more students and new graduates. However, the disparity in student debt load by wealth quintile may also indicate that the financial security and wellbeing of poorer graduates are compromised long after graduation, especially by comparison with wealthier graduates who are more likely to be free of debt as they launch their careers.

[61] 2005 SFS data by wealth quintile by region are not available due to the smaller sample size of the 2005 SFS by comparison with the 1999 SFS. The source for 1999 regional comparisons by wealth quintile is special Statistics Canada custom tabulations cited in Kerstetter, Steve. *Rags and Riches: Wealth Inequality in Canada*. (Ottawa and Vancouver: Canadian Centre for Policy Alternatives, 2002), Appendix B. Conversion of 1999 dollar values to 2005 constant dollars by GPI Atlantic.

Further investigation is required to assess the degree to which different socioeconomic and demographic factors (particularly age) affect the quintile-related disparity in student debt. Please see the Statistics Canada analysis in Section 4.2 below correlating wealth with age and income based on results from the 1999 SFS. This can certainly help explain why poorer (and younger) households are more likely to hold larger shares of student debt.

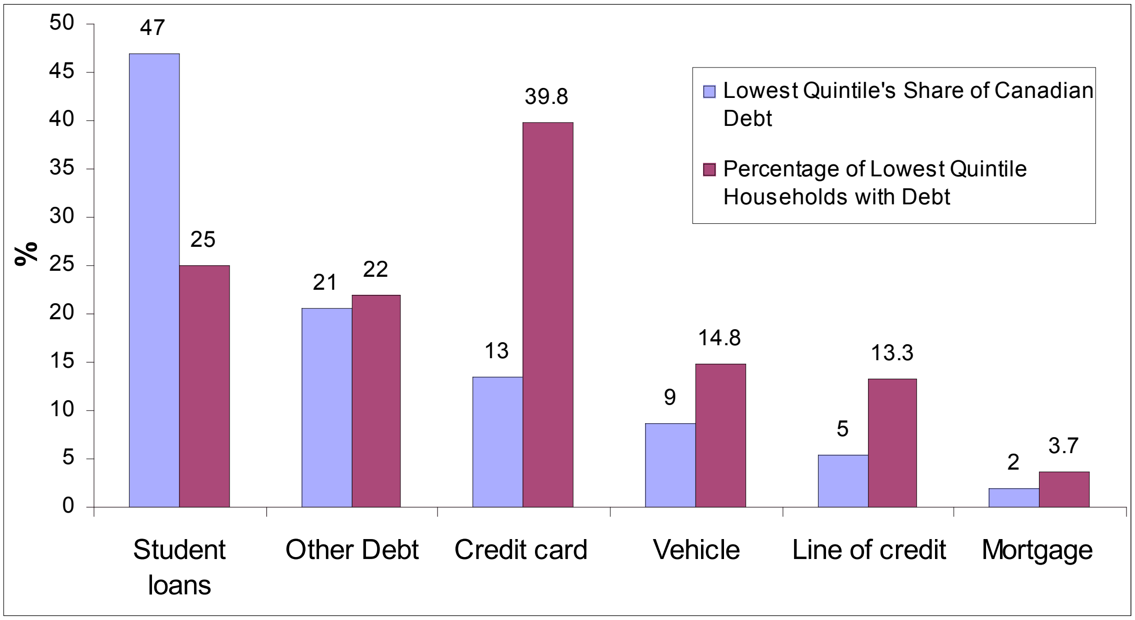
While the total value of student loans for the poorest 20% of Canadian households grew by 7% during this period, the median value of that debt ($10,400) was 8% lower in 2005 than in 1999. Whether this decline in median student loan debt for the poorest Canadians in part signifies greater access to educational grants for a larger proportion of these households or changes in borrowing needs due to shifts in choices of post-secondary school also requires further investigation. However, other data sources do not indicate relief in student debt loads. For example, in the Maritimes, average student debt increased by 10% in real terms in recent years—from $24,976 in 2003 to $27,486 in 2007 (2007 dollars).[62] It is, therefore, unlikely that the decline in median student debt load reported in the 2005 SFS for the poorest 20% of Canadian households reflects any overall amelioration of student debt burden, at least in the Maritimes.

Figure 4.4 below illustrates the other key sources of debt for the lowest wealth quintile: 15% of low wealth households had vehicle debt and 13% had line of credit debt in 2005. Only 3.5% had home mortgages, while 22% had other unspecified debt such as unpaid bills. In general, the poorest 20% of Canadian households hold a far smaller proportion of vehicle, line of credit, and mortgage debt than richer quintiles. In 2005, the lowest quintile accounted for just 8.7% of Canada's total vehicle debt, 5.4% of total line of credit debt, and only 2% of home mortgage debt (Figure 4.4 below). These debts require substantial assets and are, therefore, generally more difficult for poorer and younger households to access than credit cards or student loans. Given the relative youthfulness of many households in the lowest wealth quintile, and the fact that so many do not yet own their own homes, it is not surprising that this group accounts for such a tiny percentage of Canada's total home mortgage debt. Fewer than 4% of households in the lowest quintile have mortgages, but because of the relatively larger size of mortgage debt compared to other debt sources, mortgages account for 26% of all debt held by the lowest wealth quintile.

While poorer Canadians are also much less likely to have lines of credit than wealthier Canadians, the evidence indicates that these poorer households are increasingly able to tap into lines of credit, which as noted above, have been the fastest growing form of debt nationwide since 1999. The bottom 40% of Canadian households together still account for only 12.3% of total Canadian line of credit debt. Nevertheless, it is significant that fewer than 5% of Canadian households in the lowest wealth quintile had line of credit debt in 1999 compared to 13% in 2005—a very dramatic increase indeed.

[62] Maritime Provinces Higher Education Commission. *Intentions of Maritime University Students Following Graduation: A Survey of the Class of 2007.* (Fredericton: Maritime Provinces Higher Education Commission, 2008), Executive Summary. Available at: http://www2.mphec.ca/english/pdfs/Intentions2007En.pdf [accessed February 16, 2008].

Figure 4.4. Proportion of Lowest Wealth Quintile Households with Debt and Share of Debt (Percent), by Source, Canada, 2005



Source: Statistics Canada, Summary Tables Online. *Income, Pensions, Spending and Wealth: Assets and Debts Held by Family Units, Total Amounts, by Net Worth Quintile*. Available at: http://www40.statcan.ca/l01/cst01/famil115d.htm [accessed June 12, 2007]. Calculations of shares by GPI Atlantic.

4.1.3. Wealthiest Households

The first and fifth wealth quintiles are less likely to have debt (61% and 63% of households, respectively) than the other wealth groups, but for quite different reasons. Obtaining credit is more difficult for poorer households because of limited assets. By contrast, households in the wealthiest (fifth) quintile have greater financial resources that they can access for their investments and consumption, and in situations of unexpected expenses or income shortfalls. Wealthy Canadians tend to have less need to incur debt in the first place and have a greater capacity to pay off any debt they do incur, so that the extent of their indebtedness relative to their assets is lower than in the lower wealth quintiles. The proportion of households holding debt in the top net worth quintile increased from 58% in 1999 to 63% in 2005. The 2005 SFS also shows that this increase is related to a substantial increase in the incidence of wealthy households with line of credit, credit card, and vehicle debt.

The wealthiest 20% of Canadians owed $186 billion in debt in 2005. This was 14% less than the debt of the middle quintile and accounted for 25% of Canada's total household debt in that year. However, the wealthiest quintile's relatively significant debt levels need to be viewed in the context of the assets they own: $3.6 trillion, equivalent to 63% of the Canadian total. The debt of the wealthiest quintile is, therefore, equivalent to just 5% of the value of its assets, while the poorest quintile's level of debt exceeded its assets.

The biggest source of debt for the wealthiest Canadian households is mortgages, accounting for 74% of the total debt held by this quintile in 2005. Approximately 29% of these households have mortgages on their main homes and 11% have mortgages on other real estate investments. While the median value of the mortgages on the homes of the wealthiest Canadians rose by 16% between 1999 and 2005, the median value of the mortgages on other real estate jumped by 33%.

Indeed, the wealthiest 20% of Canadians account for nearly two-thirds (64%) of Canadian mortgage debt on other real estate investments and for 77% of the increase in these mortgages between 1999 and 2005 (Figure 4.5 below). By contrast, the *home* mortgage debt held by the wealthiest quintile accounts for only 17% of total home mortgage debt in Canada—half the share held by the middle quintile (34%) — an indication that a sizable portion of wealthy Canadians own their homes mortgage-free.

After mortgages, line of credit debt is the second largest source of debt for the wealthiest quintile. Approximately 15% of outstanding debt owed by the fifth net worth quintile in 2005 was in line of credit balances—the highest share among all the quintiles. Indeed, the top quintile accounted for 40% of the total outstanding Canadian line of credit balance in 2005 and for one-third of the increase in line of credit debt between 1999 and 2005 (Figure 4.5 below).

Credit card debt held by the richest quintile comprised 14% of the total Canadian credit card balance in 2005, less than half the share held by the middle quintile (33%). While 46% of middle quintile households and 40% of the poorest households held credit card debt in 2005, only 28% of the wealthiest Canadian households had credit card debt in 2005, though this was up from 23% in 1999. Credit card debt represented less than 2% of the outstanding debt of the wealthiest households. It is apparent from the numbers that wealthy households are considerably more capable than others in paying off their monthly credit card balances and thus avoiding the high interest charges associated with credit card debt.

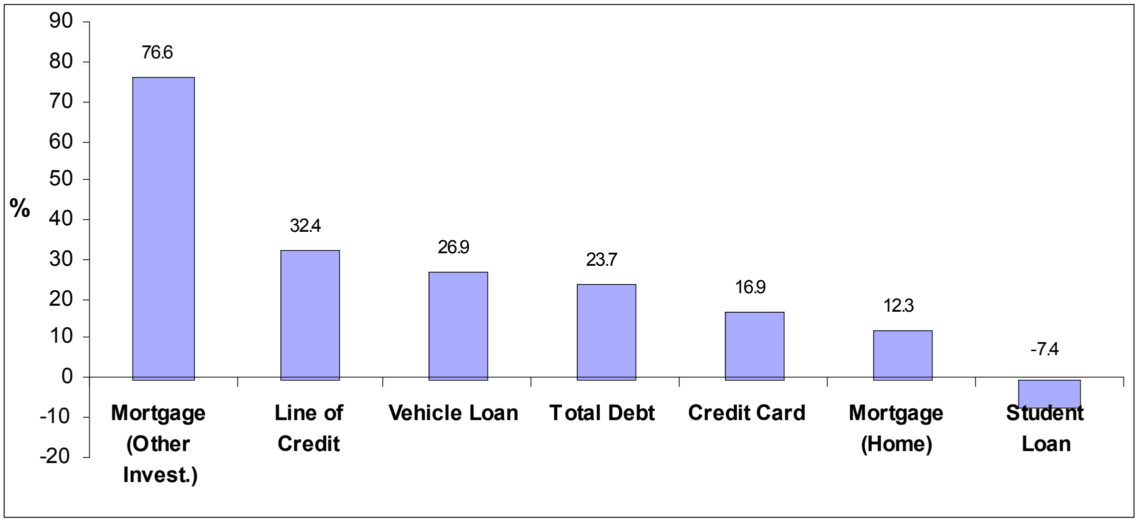
The wealthiest 20% of households are also the least likely to have student loans among all the quintiles. While 70% of the total Canadian student loan debt burden is held by the two bottom quintiles, the total amount of student loan debt held by the top quintile was literally too small for Statistics Canada to report with reliability in 2005. Indeed, the share of households in the wealthiest quintile with student loan debt decreased from 5% in 1999 to just 2.8% in 2005, while the percentage of households with student loan debt in the first three quintiles grew during the same period.[63]

As noted, these disparities between the top and bottom quintiles in student loans are partly due to age and demographic factors (including the aging of the Canadian population)—since wealthier households tend to be older, while many of Canada's

[63] The absolute value of outstanding student loan debt in the wealthiest 20% of households is not available due to the small sample size of the 2005 SFS. The fourth quintile saw a decline in outstanding student loan debt from $1.9 billion in 1999 to $1.3 billion in 2005 (2005 dollars), so it is likely that the top quintile also experienced a decline, in line with the smaller proportion of wealthy households holding student loans.

poorest households consist of younger, unattached individuals of whom a significant portion are students.

Figure 4.5. Top Wealth Quintile's Contribution to Growth of Household Debt (Percent), by Source, Canada, 1999–2005



Source: Statistics Canada, Summary Tables Online. *Income, Pensions, Spending and Wealth: Assets and Debts Held by Family Units, Total Amounts, by Net Worth Quintile*. Available at: http://www40.statcan.ca/l01/cst01/famil115f.htm [accessed May 28, 2007]. Calculations of growth rates by GPI Atlantic.

4.2. Age

The breakdown by quintile in the preceding section is mostly descriptive and requires further explanatory analysis based on careful correlations with a wide range of sociodemographic characteristics. In particular, a breakdown of wealth quintiles by age group and a dynamic analysis of the degree to which individuals move into higher quintiles as they age will likely reveal a tendency, as one analyst has noted, to "begin independent life in comparative penury and end in . . . some measure of financial security."[64] Unfortunately, resource constraints did not permit a proper life cycle and age cohort analysis here, but a preliminary examination indicates the more youthful composition of the bottom wealth quintile and that "most of the top two quintiles are made up of people in their 40s, 50s, and 60s."[65]

[64] Mason, Ian Garrick. Review of Kerstetter, Steve. *Rags and Riches: Wealth Inequality in Canada*. (Ottawa and Vancouver: Canadian Centre for Policy Alternatives, 2002). In *Literary Review of Canada,* January/February 2003. Available at: http://www3.sympatico.ca/ian.g.mason/Rags_and_Riches.htm [accessed June 18, 2008].
[65] Ibid.

Statistics Canada notes that the longitudinal data available for a dynamic life cycle analysis are not available, but cross-sectional data by age can be used to approximate various stages in the life cycle. In other words, rather than following the same individuals over their lifetime, different individuals are compared at different stages in the cycle. Using this method, Statistics Canada provides the following analysis correlating wealth with both age and income, based on the 1999 Survey of Financial Security:

> Persons in the under-25 age group appear to be the poorest in terms of both net worth ($1,800) and after-tax income ($12,600). This group is probably made up largely of students with unstable jobs or no income, or of young workers who are unskilled or just starting their career. Also, with respect to wealth, they would have had little time to accumulate savings.
>
> The 25 to 34 age group is likely made up largely of young people beginning their career and starting families. Income and assets increase rapidly, but so do debts. This has the effect of slowing the increase in net worth. Persons from 35 to 49 are advancing in their careers. Their earnings increase slowly but rise steadily. Debt growth slows, causing net worth to increase very rapidly. Whereas income rises from $33,000 to $42,100, an increase of 28%, net worth more than triples, climbing from $28,100 to $86,500, an increase of 208%.
>
> Between 50 and 64 years of age, earnings hardly increase at all. Nevertheless, assets continue to grow as a result of saving, and total debt declines as homes and cars are paid off. Those aged 50 to 64 have the greatest net worth, even though their income differs little from that of the preceding age group. The 65-and-over age group is phasing into retirement. Income falls dramatically, from an average of $39,300 to $24,400, making them the poorest after those under 25 in terms of after-tax income. Assets also decline. But because debts are now almost non-existent, net worth does not decline as much. In fact, the 65-and-over age group is in second place in terms of net worth.[66]

This analysis is confirmed by results from the 2005 SFS, which shows that younger households tend to have heavier debt burdens relative to their assets than their older counterparts, even though their absolute amount of indebtedness may be lower.[67] According to the 2005 SFS, for every $100 they own in assets, households with income earners younger than 35 years of age owed more than $39. This is about three times higher than the Canadian average of $13.52 in debt per $100 in assets.[68] Nearly one-fifth

[66] Augustin, Baudelaire, and Dimitri Sanga. "Income and Wealth." *Perspectives on Labour and Income*. (Ottawa: Statistics Canada, vol. 3, no. 11, catalogue no. 75-001-XIE, November 2002). Available at: http://www.statcan.ca/english/freepub/75-001-XIE/01102/ar-ar_200211_03_a.html [accessed June 18, 2008].

[67] Statistics Canada has released total debt-to-asset ratios from the 2005 SFS by age group, but it currently does not provide detailed debt data by age group, largely due to the relatively small sample size of the 2005 SFS.

[68] Statistics Canada, Summary Tables Online. *Income, Pensions, Spending and Wealth: Net Worth of Family Units, by Selected Family Characteristics*. Available at: http://www40.statcan.ca/l01/cst01/famil112a.htm [accessed September 12, 2007].

of households with one or more income earners under 35 years of age had zero or negative net worth (debts exceeding assets).[69]

Household debt burden relative to assets declines with age. In the 2005 SFS, households with income earners between the ages of 35 and 44 years had the second highest debt burden relative to assets, owing $24 for every $100 in assets, while those with earners between 55 and 64 years of age owed just $7 for every $100 in assets. Those with earners 65 years of age and older had only $2 dollars in debt for every $100 of assets. This is not surprising, as households with older income earners are more likely to have accumulated more assets such as homes, financial assets, and retirement savings as they have had more time to pay off or pay down their mortgages and other debts. Again, not surprisingly, student loans are a major source of debt for households with younger income earners: 28% of households with income earners younger than 35 years of age had student loan debt in 2005. This age cohort holds more than 56% of the total student loan debt in Canada.[70] According to the Millennium Scholarship Foundation, young households will have to contend with even heavier student debt burdens over the coming decade, as the level of accumulated student debt continues to increase. Thus, the average debt to finance an undergraduate degree was $24,047 in 2006, up from $20,286 in 2000.[71]

Households with younger and middle-aged earners are also more likely to have credit card balances than their older counterparts. Nearly half of households with income earners between 35 and 44 years of age have credit card debt compared to 16% of households with income earners 65 years of age and older.[72]

Available data seemingly suggest that the magnitude of debt owed by younger adults is unprecedented and is increasing, particularly due to rising levels of student loan and credit card debt. For young Canadians, the prospect of paying off large debt loads make it difficult for them to gain a solid financial footing and may adversely affect their wellbeing and quality of life for years to come.

This is an important hypothesis that requires careful testing and analysis, as it indicates that it is not enough to ascribe debt, asset, and wealth gaps to natural life cycle effects alone, as some do. For example, Ian Mason, a critic of Kerstetter's analysis of the wealth gap in Canada based on custom tabulations from the 1999 SFS, writes:

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[69] Statistics Canada, Pensions and Wealth Survey Sections. *The Wealth of Canadians: An Overview of the Results of the 2005 Survey of Financial Security*. (Ottawa: Minister of Industry, catalogue # 13F0026MIE, December 2006), Table 11, page 19.
[70] Ibid., page 17.
[71] Millennium Scholarship Foundation. *Report on Student Debt*. (Released May 2007). Berger, Joseph, Anne Motte, and Andrew Parkin. "Chapter Three." *The Price of Knowledge: Access and Student Finance in Canada*. (Montreal: The Canada Millennium Scholarship Foundation, November 2006), page 5.
[72] Pensions and Wealth Survey Sections, Statistics Canada. *The Wealth of Canadians: An Overview of the Results of the 2005 Survey of Financial Security* (Ottawa: Minister of Industry, December 2006. Catalogue # 13F0026MIE), page 19.

> What we're looking at is just a persistent natural waveform, which each of us—if we're prudent or lucky—moves through in his or her turn, like leaves move through and over a standing wave in a river.[73]

As noted earlier, Mason argues that most people begin life relatively poor, with few assets, and with student and other debt. But, over time,

> a lifetime of debt reduction and careful investing have resulted in the creation of a nest egg, which will then be drawn slowly down as these people live out their retirement years, while wealth tied up in houses whose value has appreciated over decades can be accessed, if required, with a reverse mortgage or by downsizing to a cheaper house.[74]

While this life cycle effect is certainly evidenced in data from the 1999 and 2005 SFS, such an analysis is only partial and does not address the issue of whether young Canadians today are more indebted and more financially insecure than young Canadians 10, 20, 30, or 40 years ago. Evidence also suggests that increasing levels of student and credit card debt among the young have been matched by higher rates of low-wage work, declining levels of self-rated health, and higher rates of depression—pointing to a potential decline in both financial security and wellbeing among young Canadians.[75]

Thus, beyond a life cycle analysis, a key question arising from the 1999 and 2005 SFS data is whether the magnitude of debt incurred by the young, particularly through student loan and credit card debt, will undermine financial security and impose costs and financial strains for a much longer period in these young people's lives than was the case for previous generations. In sum, considerable further investigation is required to understand the relation between age and wealth—both dynamically over the life cycle and among the same age groups over time.

4.3. Other Household Characteristics

The debt burden of households is influenced by the composition of individual households and by a wide range of other characteristics including income, education, and geographical location. This section offers only a few examples (due to resource constraints) to point to the kinds of analysis that are required.

For example, households with children have a greater debt burden than the average Canadian household, according to the 2005 SFS. Two-parent households with children

[73] Mason, Ian Garrick. Review of Kerstetter, Steve, *Rags and Riches: Wealth Inequality in Canada*. (Canadian Centre for Policy Alternatives, 2002), *Literary Review of Canada,* January/February 2003. Available at: http://www3.sympatico.ca/ian.g.mason/Rags_and_Riches.htm [accessed June 19, 2008].
[74] Ibid.
[75] Forthcoming reports on Living Standards and Population Health, prepared for the Canadian Index of Wellbeing.

younger than 18 years of age owe an average of $20 for every $100 of assets they own. The burden of debt is even more acute for single-parent households, which owe at least $28 for every $100 in assets—more than twice the Canadian average of $13.52 in debt per $100 in assets.[76]

Unattached individuals typically owe $12 dollars for every $100 of assets. However, unattached individuals in general tend to have lower median net worth than other households. Moreover, the median net worth of unattached individuals increased by less than 4% between 1999 and 2005—a considerably slower rate of increase than the 23% average increase in median net worth for all households.

The 2005 SFS results do not appear to show a strong connection between debt burden, the financial security of households, and the sex of income earners or their educational level. However, further analysis is required in these areas. Additional breakdowns of the characteristics of debt holders would also be desirable if data were available. For example, it would be interesting to analyse the debt burdens and wealth of households in relation to health status (both physical and mental) and a range of social characteristics. However, such analyses are not presently possible based on the existing SFS data.

[76] Statistics Canada, Summary Tables Online. *Income, Pensions, Spending and Wealth: Net Worth of Family Units, by Selected Family Characteristics*. Available at: http://www40.statcan.ca/l01/cst01/famil112c.htm [accessed August 8, 2007].

In Focus: A Geographical Bias to Debt Holdings? A Snapshot of Household Debt in Atlantic Canada

In 2005, 46% of all Canadian household debt was concentrated in Ontario, up from 43% in 1999. Ontario, with 39% of Canada's population, also accounts for the largest share of Canadian assets: 41% and 42% in 1999 and 2005, respectively.

The only other region in Canada that saw its share of national household debt increase between 1999 and 2005 was Atlantic Canada—rising from 4.9% to 5.4%. On the other hand, Atlantic Canada's share of national assets slipped from 5.2% to 4.9% in this time period. Since wealth is defined as assets minus debts, these shifts together mean that Atlantic Canada is even less wealthy now than it was at the end of the 1990s, relative to other parts of the country. It is noteworthy that Atlantic Canada's share of the Canadian population has also trended down to 7.3% in 2005.[1] In sum, the latest SFS numbers show that the region's share of the national wealth is continuing to decline and remains considerably below its share of the national population while debt has risen.

Unlike the regional breakdowns of household debt that are possible using the 1999 Survey of Financial Security (SFS), the 2005 SFS, with its much smaller sample size, cannot provide detailed regional and provincial debt and asset information. According to the available 1999 data, Atlantic Canadian households were more likely to have debt than households in other regions, with more than 73% of Atlantic region households holding debt compared to 67% at the national level. The poorest (lowest wealth quintile) households in Atlantic Canada accounted for a greater share of regional debt (10%) than the poorest households in other regions (5–6%).

While the majority of household debt in Atlantic Canada in 1999 was from mortgages (61%), this share was one of the lowest in Canada. In the other provinces, mortgages ranged from a low of 57% of household debt in Saskatchewan to a high of 81% in British Columbia. Households in the Atlantic region are also least likely to have mortgages from other real estate holdings, indicating a lower incidence of Atlantic households undertaking real estate investments.

1. Statistics Canada. "Population by year, by Province and Territory." Available at: http://www40.statcan.ca/l01/cst01/demo02a.htm [accessed March 3, 2008].

**In Focus: A Geographical Bias to Debt Holdings?
A Snapshot of Household Debt in Atlantic Canada
(continued)**

By contrast, the Atlantic region has a much greater share of household debt tied to vehicle debt, student loans, and credit cards than other parts of the country, and also a considerably higher proportion of households with vehicle, student, and credit card debt.

The second most important source of debt in the Atlantic region in 1999 was vehicle loans, comprising 13% of household debt in the region—more than twice the share at the national level, where vehicle debt constituted only 6% of total household debt. Student loans accounted for over 8% of household debt in Atlantic Canada, again more than twice the share at the national level (3.3%) and by far the highest proportion in the country, with student loans in other provinces ranging from a low of 2.1% of debt in British Columbia to 5.2% in Saskatchewan. Credit card debt accounted for 5% of total household debt in the Atlantic region, compared to just 3.2% nationally.

More than 48% of households in Atlantic Canada had credit card balances in 1999—the highest rate in Canada and substantially higher than the 38% national rate. In addition, 31% of Atlantic households had vehicle loans (21% nationally) and 16% had student loan debt (12% nationally). In short, the debt profile of Atlantic Canadians is quite different from the national one, which perhaps helps explain a portion of the wealth gap between the Atlantic region and the rest of Canada. Thus, when debt types are examined, it is seen that households in the Atlantic region are, to some extent, burdened by higher cost debt (due to greater reliance on credit card balances, for example) than their counterparts in other parts of the country, while their asset holdings are not growing as strongly.

5. Managing the Debt Burden

Interest rates have generally trended downwards since the early 1980s. Between 2001 and 2005 in particular, historically low interest rates in Canada reduced borrowing costs and expanded access to borrowing. As a result, Canadians have been borrowing money at record levels for home purchases and other spending. In many cases, debt is skilfully and carefully managed to leverage greater assets. However, this unprecedented level of household debt is also posing key concerns: Do households have the financial capacity to service and repay their debts? Are there signs that debt levels are compromising the financial security of households?

The debt-to-income ratio of Canadian households has risen sharply—from 79% in 1981 to 118% in 2005. This potentially indicates deterioration in household finances.[77] However, debt and income represent only two components of households' financial security and of their capacity to manage a particular level of debt. Some experts argue that the faster growth of assets and wealth compared to debt and income since the early 1980s suggests that, financially, Canadian households are on a sounder footing than their debt and income levels (and debt-to-income ratios) would suggest.[78]

Although the evidence of wealth appreciation at the aggregate level may suggest an overall improvement in financial security for Canadians, delving into the details at the household level—including an examination of quintile breakdowns—reveals otherwise. In fact, the evidence in this chapter indicates that rising debt levels are exacting a significant toll on the financial security of many households and increasing their vulnerability.

5.1. Households' Capacity to Manage Debt

Households' ability to service and repay their debts depends on factors such as the level of household income, the employment status of households' income earners, their debt load relative to the value of their assets, the rate at which assets are appreciating, and the liquidity of assets (i.e., how quickly and easily an asset can be converted to cash).

The capacity of households to manage their debt burden is typically measured using the following three indicators: (i) the debt service ratio, which measures the proportion of income that households devote to servicing their debt; (ii) the debt-to-income ratio, which indicates whether overall income is adequate to service debt; and (iii) the debt-to-asset

[77] Centre for the Study of Living Standards (CSLS). *Living Standards Domain of the Canadian Index of Wellbeing*. Prepared for the Canadian Index of Wellbeing. (Forthcoming), page 93.
[78] Toronto Dominion (TD) Economics. "Canadian Consumers to Carry Economy Through 2007." *Consumer Pulse.* (Toronto: TD Economics, January 8, 2007).

ratio, which indicates the extent to which household debt is backed by household assets.[79] These three indicators are a useful starting point for this analysis but they do not tell the whole story of debt management. For example, asset type (including degree of liquidity) is directly relevant to capacity to manage debt, and results for all these indicators will vary greatly according to household characteristics, as the next chapter will show.

5.1.1. Servicing the Debt

Household debt increased by 48% in real terms in the six-year period from 1999 to 2005.[80] However, with interest and mortgage rates at historically low levels, debt-servicing costs have been at low levels not seen in four decades.[81] The low overall cost of servicing household debt in recent years can also be partially attributed to many households shifting from higher interest personal loans to lines of credit, which typically carry lower interest charges.[82]

Financial security can be undermined when debt-servicing costs comprise a large share of household spending relative to income. There are two commonly used thresholds to indicate the level of this risk for households. One threshold is when total debt payment costs exceed 40% of *gross* income and the second commonly used threshold is debt payment in excess of 30% of household *net* income.[83]

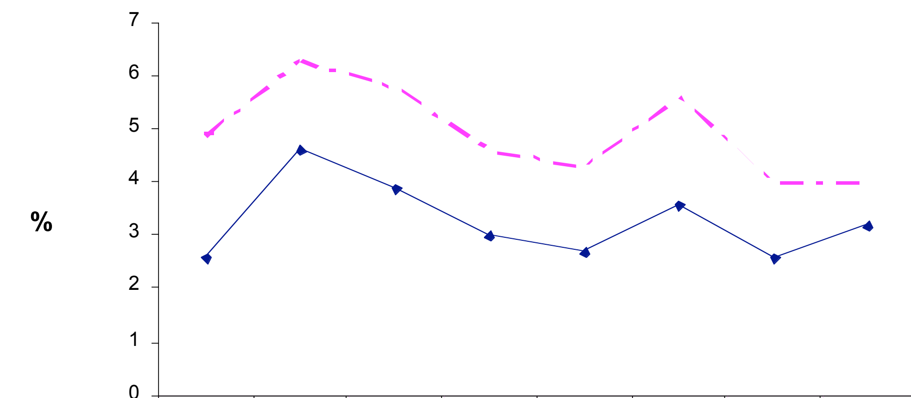
According to these criteria, evidence indicates that the cost of servicing debt is not an issue of concern for the majority of Canadian households. Based on the gross income threshold, the Bank of Canada observes that Canadian households are generally in a solid financial position to manage their debt loads. According to the Bank of Canada, only 3.2% of Canadian consumers had debt-servicing costs in excess of 40% of their gross income in 2006. This share has fluctuated without a clear trend since 1999, ranging from lows of 2.6% (in 1999 and 2005) to a high of 4.6% in 2000 (see Figure 5.1 below). Households in the western provinces tend to have higher debt service ratios than in other regions, which can be partly explained by high housing prices and higher associated mortgage costs in these provinces.[84]

Moreover, the Bank of Canada notes that, in absolute dollar terms, the debt owed by vulnerable households (defined here as those households with debt-servicing ratios in excess of 40% of gross income) as a share of total debt is at its lowest level since 1999: 4% (Figure 5.1 below).[85] Nevertheless, the bank also notes that distributional analysis

[79] Bank of Canada. *Financial System Review.* (Ottawa: Bank of Canada, December 2006), page 12.
[80] Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 2005. Provided to GPI Atlantic by the Income Statistics Division.
[81] Le Goff, Philippe. "Saving or Spending: A Matter of Growth." (Ottawa: Parliamentary Research Branch, Parliamentary Library, February 2, 2004), page 1. Available at: http://dsp-psd.pwgsc.gc.ca/Collection-R/LoPBdP/EB-e/prb0349-e.pdf [accessed August 8, 2007].
[82] Bank of Canada. *Financial System Review.* (Ottawa: Bank of Canada, June 2006), page 5.
[83] Bank of Canada. *Financial System Review.* (Ottawa: Bank of Canada, December 2006), page 15.
[84] Ibid., page 16.
[85] Ibid., page 15.

shows debt servicing to be a bigger concern for poorer households than for wealthier ones, as low-wealth households tend to dedicate a larger portion of their income to debt payments. [86]

Figure 5.1. Households with Debt-Servicing Payments Exceeding 40% of Gross Income (Percent), Canada, 1999–2006



	1999	2000	2001	2002	2003	2004	2005	2006
Proportion of Households	2.6	4.6	3.9	3	2.7	3.6	2.6	3.2
Share of Total Canadian Debt	4.9	6.3	5.8	4.6	4.3	5.6	4	4

Source: Bank of Canada. *Financial System Review.* (Ottawa: Bank of Canada, December 2006), Table 3.

5.1.2. Trends in Household Income

As observed in Chapters 2 and 3, total Canadian household debt has grown substantially. We have seen that the size and nature of the debt burden for individual households depends on characteristics such as household wealth and the age of income-earners. Similarly, a household's ability to service its debt is also contingent on many factors, including the earning power of the household, its asset holdings, and its ability to manage personal finances (such as using credit to build assets rather than to finance current consumption).

Income plays a crucial role in all these considerations. A widely used "bottom-line" measure of the household sector's ability to repay and service debt is the ratio of debt to personal disposable income (PDI). Personal disposable income consists of employment earnings, investment income (which is dependent on asset holdings), and government transfers minus taxes.

This section relies on personal debt and PDI data from Statistics Canada's National Balance Sheet Accounts (NBSA) and Income and Expenditure Accounts, in addition to household debt data from their Survey of Financial Security (SFS) and family income

[86] Ibid.

data from the Survey of Labour and Income Dynamics (SLID). A considerable portion of these data were compiled and provided by the Centre for the Study of Living Standards in Ottawa.

A cautionary note on the data must be added here: household debt data from the SFS and data on personal liabilities from the NBSA are not fully comparable because of differences in data collection and methodology. However, given the limited availability of time series data in this important area, the analysis below draws on and coalesces the results of these sources to assess trends in debt and income over time.

In Focus: The Role of Interest Rates

Debt-servicing costs are primarily a function of the level of indebtedness and of interest rates. It is, therefore, important to understand how trends in interest rates affect both debt levels and capacity to service debt.

The massive increase in household debt since the early 1980s has occurred in tandem with sharply falling interest rates and is partly a function of those falling rates, since low interest rates make borrowing easier. If debt had been incurred at a strong pace coinciding with rising interest rates, this would clearly have been far more problematic from a debt-servicing perspective, since borrowing would have been much more expensive.

The interest rates that banks and other financial institutions charge on debt are largely influenced by the target overnight interest rate set by the Bank of Canada. The overnight rate is "the interest rate at which major financial institutions borrow and lend one-day (or 'overnight') funds among themselves."[1] The Bank of Canada sets this rate, and there are eight fixed announcement dates annually when the rate level is announced.

After several sharp successive drops in this target rate in the early 1980s and the first half of the 1990s, the Bank of Canada again reduced the overnight rate to historically low levels in 2001 and kept the rate in the 2.25% to 3% range throughout the 2001 to 2005 time period.[2] However, in late 2005, the central bank began raising its overnight rate at a measured pace to contain inflationary pressures in the Canadian economy. The overnight rate also increased several times in 2006 and reached 4.5% in July 2007. Experts have predicted that the Bank of Canada will likely maintain this rate or increase it slowly during the short-term, with the possibility of an occasional reduction as needed to counter the strength of the Canadian dollar.[3]

After more than two decades of falling and low interest rates, during which Canadians have become accustomed to low borrowing costs and easier access to credit, it is important to ask how recent increases in the Bank of Canada overnight rate affect the ability of households to service their debt. The rise in the overnight rate will translate into higher interest rates charged by financial institutions. Changes in interest rates will, in turn, have an impact on household debt-servicing payments and thus on the residual disposable income available to those households for other spending.

1. Bank of Canada. "Key Interest Rate: Target for the Overnight Rate." *Monetary Policy*. Available at: http://www.bankofcanada.ca/en/monetary/target.html [accessed September 22, 2007].
2. Bank of Canada. "Rates and Statistics." Available at: http://www.bank-banque-canada.ca/en/rates/index.html [accessed September 22, 2007].
3. Tal, Benjamin. *Household Credit Analysis*. (Toronto: Canadian Imperial Bank of Commerce (CIBC) World Markets, June 25, 2007); Toronto Dominion (TD) Economics. *Monetary Policy Monitor*, (Toronto: TD Economics, July 6, 2007).

Canadians owe more than they earn. Since 1993, according to the NBSA and Income and Expenditure Accounts, the total value of consumer debt has exceeded the total value of PDI in Canada. In other words, in numerical terms, the debt to PDI ratio has exceeded 1.0 since 1993. In 2005, Canadians owed $1.18 for every dollar of personal disposable income.[87]

The level of household debt (personal liabilities) has been climbing at a faster rate than PDI since the late 1980s. This gap has widened sharply since the mid-1990s (see Figure 5.2 below). Indeed, growth in the total value of personal liabilities in Canada outstripped growth in personal disposable income at a particularly strong rate between 2000 and 2005.[88] In 2005, the debt level appeared to stabilize relative to PDI, though it is too early to tell whether this signifies the beginning of a real long-term trend.

Between 2000 and 2005, the NBSA show that the value of personal liabilities (household debt) in Canada averaged an annual real growth rate of 4% while total PDI averaged an annual real growth rate of 2%.[89] Over the full 24-year period from 1981 to 2005, for which consistent comparative data are available, the real growth rate of personal liabilities (household debt) averaged 3.8% annually while the real rate of increase in PDI averaged 1.8% annually.[90]

Figure 5.2 below shows that the value of assets has also grown much more strongly than income. This is a significant aspect not captured by debt-to-income ratios alone, since assets and wealth, if sufficiently liquid, can expand households' spending choices beyond the limits of income. Even if they are not so liquid—for example, when asset value increases due to the appreciating value of homes—growing assets and wealth can still expand households' borrowing choices and capacity. Because of the importance of this key element of the equation, the next chapter will focus more closely on assets and wealth, thereby adding a key dimension to the discussion on debt management not covered here.

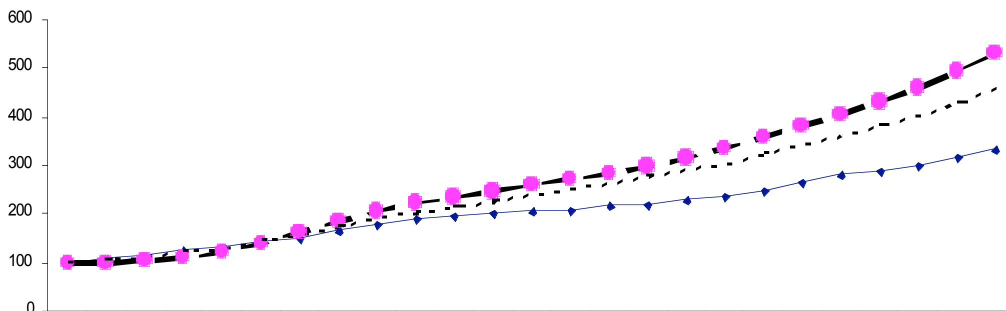
[87] Centre for the Study of Living Standards (CSLS). *Living Standards Domain of the Canadian Index of Wellbeing*. Prepared for the Canadian Index of Wellbeing. (Forthcoming); Statistics Canada. *CANSIM Table 378-0004 – National Balance Sheet Accounts, by Sector, Annual*; Statistics Canada. *CANSIM Table 380-0019 – Sector Accounts, Persons and Unincorporated Businesses, Annual.*

[88] Statistics Canada's National Balance Sheet Accounts define personal liabilities as including total consumer credit, bank loans, mortgages, and other loans. The National Balance Sheet Accounts estimate the value of Canadian assets and liabilities at the national level only from 1981 to the present.

[89] Statistics Canada. *CANSIM Table 378-0004 – National Balance Sheet Accounts, by Sector, Annual;* Statistics Canada. *CANSIM Table 380-0019 – Sector Accounts, Persons and Unincorporated Businesses, Annual.* Conversions to 2005 constant dollars by GPI Atlantic using CPI deflator data provided by Statistics Canada, Income Statistics Division.

[90] Ibid.

Figure 5.2. Comparative Rates of Increase (Index: 1981 = 100), Personal Liabilities and Assets versus Personal Disposable Income, Canada, 1981–2005



	'81	'82	'83	'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05
Disposable Income	100	110.4	115.5	125.4	135.4	142.7	151.8	165.6	181.4	191.7	198.0	202.6	207.4	210.3	217.8	221.2	228.9	238.4	249.9	268.0	280.5	290.9	302.1	317.9	331.7
Liabilities	100	99.4	106.9	112.5	124.3	141.9	164.5	185.5	207.3	224.6	234.1	246.8	260.2	273.2	283.9	297.8	316.1	336.4	359.2	380.5	403.4	429.3	459.4	493.3	530.2
Assets	100	107.0	115.8	123.9	133.5	146.8	160.6	176.5	194.9	203.5	215.5	227.0	240.6	253.9	263.8	277.3	292.1	303.9	324.2	344.2	361.7	382.7	401.9	426.5	458.6

Sources: Statistics Canada. *CANSIM Table 378-0004 – National Balance Sheet Accounts, by Sector, Annual*; Statistics Canada. *CANSIM Table 380-0019 – Sector Accounts, Persons and Unincorporated Businesses, Annual.* Index calculations by GPI Atlantic.

The growing gap between household income and indebtedness is confirmed by data from Statistics Canada's SLID. Real median household income grew by just under 5% nationally between 1999 and 2004—substantially less than the 38% real increase in median household debt from 1999 to 2005.[91]

This gap, based on the SLID data, is also observed in Atlantic Canada. Between 1999 and 2004, the Atlantic Provinces experienced growth in median household income ranging from -0.3% in Newfoundland and Labrador to more than 12% in Prince Edward Island. Real median household income in Nova Scotia grew by 3.8% during the same period. In sharp contrast, median household debt increased by 45% in the Atlantic region as a whole between 1999 and 2005.[92] Again, these debt-to-income ratios must be considered in the context of the parallel asset gains during the same period, as noted above.

Again, as noted earlier, aggregate data provide only limited information on trends in financial security, a generalization that applies in this case also to debt-servicing capacity. Thus, aggregate debt and income growth trends mask substantial variations among the income and wealth quintiles that, in turn, have important and varying implications both for the financial security of households in general and for their debt-servicing capacity in

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[91] Income data from Survey of Labour and Income Dynamics (SLID) provided by the Centre for the Study of Living Standards (CSLS). *Living Standards Domain of the Canadian Index of Wellbeing*. Prepared for the Canadian Index of Wellbeing. (Forthcoming), Table 12B; Statistics Canada. *CANSIM Table 202-0401 – Distribution of Total Income, by Economic Family Type;* Median household debt data are from Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 2005.

[92] Income data from Survey of Labour and Income Dynamics (SLID) provided by the Centre for the Study of Living Standards (CSLS). *Living Standards Domain of the Canadian Index of Wellbeing*. Prepared for the Canadian Index of Wellbeing. (Forthcoming), Table 12B; Median household debt data are from Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 2005.

particular. Debt-to-income ratios vary significantly among households according to their wealth and income.

While income trends are available by income quintile, debt data are only available by wealth (instead of income) quintile, so a comparison of income and debt growth rates by quintile has limitations because income and wealth quintiles do not fully correspond.[93] However, higher income groups do, in general, tend to be wealthier than lower income groups, so the overlap between income and wealth quintiles is sufficient to allow for at least a rudimentary analysis of income and debt growth rates by quintile. On this point, Statistics Canada observes that:

> income and wealth have an imperfect but clearly discernible relationship. A person who is poor from a net worth standpoint has more than one chance in two of also being poor from an income standpoint. However, there is a 45% chance that the person will fall into a higher quintile for income than for net worth. On the other hand, a person in the top net worth quintile has a 45% chance of also being in the top income quintile. But then again, 55% of people who fall into the top net worth quintile do not fall into the top net income quintile.
>
> Households in the top and bottom quintiles have a larger share of net worth than after-tax income. Households in the third and fourth quintiles have a larger share of after-tax income than net worth, while the second quintile shows equal shares of income and net worth.[94]

Statistics Canada notes that the relationship between income and wealth "is always present, but varies considerably from one stage in the life cycle to the next." To analyse this relationship, Statistics Canada breaks households down into centiles (i.e., dividing households into 100 equal portions ranging from lowest income to highest):

> Households in the lowest after-tax income centiles generally have a larger share of wealth than of after-tax income. This may be because elderly persons, for whom C/QPP and OAS are often the only sources of income, fall into the low after-tax income centiles. On the other hand, they have substantial net worth in the sense that they have paid off most of their debts. These centiles also contain self-employed workers who may be sustaining losses, causing their after-tax income to be negative even though they have substantial net worth.
>
> The higher centiles contain many families with a larger share of after-tax income than net worth. These families earn sizeable incomes but also have sizeable liabilities such as mortgages, student loans, and other debts. Between the two

[93] Income trends by income quintile used in this section draw on SLID data of economic families, adjusted for family size. An economic family is defined as a group of two or more persons who live in the same dwelling and are related to each other by blood, marriage, common law, or adoption.
[94] Ibid.

extremes are centiles in which shares of after-tax income and net worth are equal.[95]

In the same analysis, Statistics Canada observes that "income and wealth tend to vary in the same direction but not at the same rate." With these major caveats, it is still helpful to break down the aggregate income and debt trends noted above by quintile, since the aggregate data can send misleading messages on debt servicing capacity. This is because overall income and wealth gains mask significant differences in both income and wealth trends at the quintile level, with the aggregate rise in income and wealth at least in part reflecting the impact of gains by the richest Canadians—both relatively and (even more significantly in statistical terms) absolutely.

The historical evidence indicates that, after a period of stagnant and even declining real incomes for lower and middle-income Canadians in the early to mid-1990s, Canadian households in all income quintiles have seen their incomes grow steadily since the late 1990s. Over the longer term, Canadian households in the first to the fourth quintiles experienced growth in real after-tax income ranging from 11% to 14% between 1981 and 2004. The highest income quintile (fifth), however, had by far the largest increase in real after-tax income during this 23-year period at 26%.[96]

In recent years (the period between the two latest Surveys of Financial Security, i.e., 1999 and 2005), growth in median debt has generally outstripped the rise in median income. This observation is derived from comparing debt trends in the 1999 and 2005 Surveys of Financial Security (SFS) with income trends from Statistics Canada's Survey of Labour and Income Dynamics (SLID) for the 1999–2004 period.[97]

Thus, the lowest net worth households experienced an increase of 30% in the median value of debt between 1999 and 2005, according to SFS data. Correspondingly, after-tax income for the lowest-income (first quintile) households grew by 10% between 1999 and 2004.[98] Households in the middle-income (third) quintile experienced income growth of 9%, while middle-wealth households saw a 24% increase in their median debt. Households in the fourth (upper-middle) quintile saw their after-tax income grow by 9% and their median debt increase by nearly 40% during this period. The richest (fifth quintile) Canadian households, by contrast, experienced the strongest growth in median after-tax income—over 12%—and the slowest growth in median debt—just 1.4% (see Figure 5.3 below).

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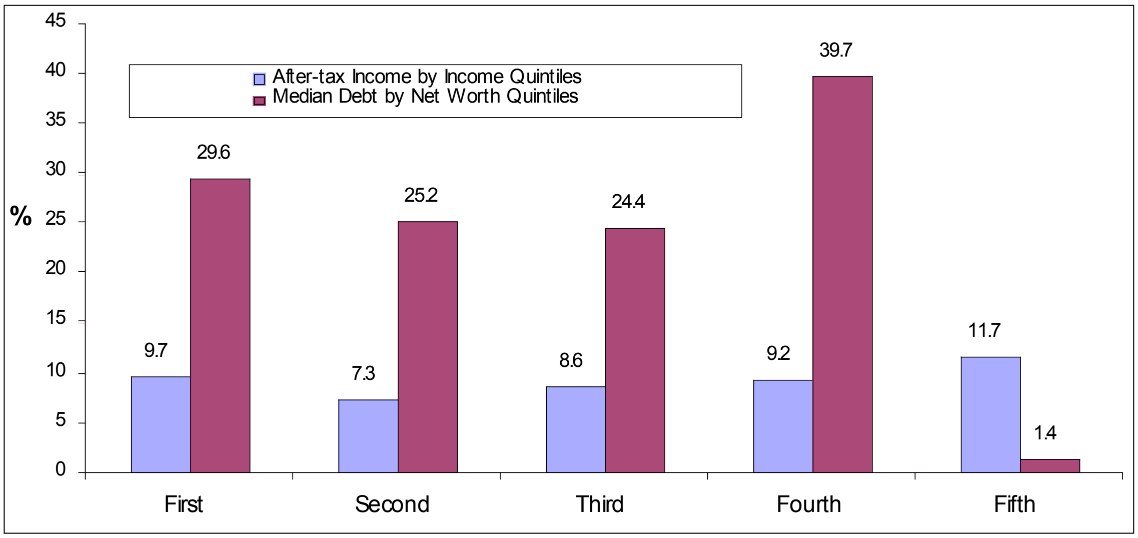
[95] Ibid.
[96] Income data from Survey of Labour and Income Dynamics (SLID) provided by the Centre for the Study of Living Standards (CSLS). Living Standards Domain of the Canadian Index of Wellbeing, Table 24C, adjusted for family size. Prepared for the Canadian Index of Wellbeing. (Forthcoming).
[97] Financial constraints did not permit the purchase of more recent SLID data from Statistics Canada. Because data to 2004 were available to GPI Atlantic for free by courtesy of CSLS, the comparison here is confined to those years.
[98] Real family income growth rates are from the Survey of Labour and Income Dynamics, provided by the Centre for the Study of Living Standards (CSLS). *Living Standards Domain of the Canadian Index of Wellbeing*. Prepared for the Canadian Index of Wellbeing. (Forthcoming), Table 24C.

With the major caveats noted above, it might be concluded from this comparison that—based on debt-to-income ratios—debt-servicing capacity and ability to manage debt effectively improved substantially for the wealthiest Canadian households, but declined for all other groups. As noted, debt-to-income ratios do not tell the whole story. Debt must also be considered in the context of asset accumulation. Nevertheless, the contrast between the wealthiest households and all the rest, in terms of the recent rates of change in median after-tax income and median debt, is so striking that it points very clearly to the need to go below the aggregate data to discern shifts in debt-servicing capacity and financial security.

Figure 5.3. Change (Percent) in Total After-Tax Income (1999–2004) and Median Debt Value (1999–2005), Canada



Note: Growth in after-tax median income is for the period 1999 to 2004. After-tax income is total income, which includes employment earnings, investment income, and government transfers, minus income tax. It may also be called income after tax or personal disposable income (PDI).

Sources: Income growth rates based on Survey of Consumer Finances (SCF) / Survey of Labour and Income Dynamics (SLID) estimates provided by the Centre for the Study of Living Standards (CSLS). *Living Standards Domain of the Canadian Index of Wellbeing*. Prepared for the Canadian Index of Wellbeing. (Forthcoming). Debt growth rates from Statistics Canada, Summary Tables Online. *Income, Pensions, Spending and Wealth: Assets and Debts Held by Family Units, Total Amounts, by Net Worth Quintile*. Available at: http://www40.statcan.ca/l01/cst01/famil115a.htm [accessed May 8, 2007].

5.1.3. Levels of Debt Compared to Value of Assets

Canadian households are generally incurring debt at a faster rate than they are making gains in income, with the exception of the richest Canadians, as discussed in the previous section. Income is one key indicator of capacity to manage debt but asset accumulation is also a key debt management indicator because households hold debt in the context of assets, which, if relatively liquid or yield investment income, can also be used towards servicing debt.

In particular, debt may be skilfully used to increase assets and wealth, so debt management is also closely related to asset and wealth planning and management. For example, debt might be incurred at relatively low interest charges to create investments at a higher rate of interest, and to build assets that produce a good rate of return. While the many nuances of financial management are beyond the scope of this study, this section at least examines changes in Canadian household debt-to-asset ratios in order to provide further insight on the capacity of households to manage their debt loads.

Some experts observe that income and debt trends (i.e., increasing debt-to-income ratios since the late 1980s and in excess of 1.0 since 1993) are not alarming because of strong asset growth during this period.[99] In 2005, the total value of assets in Canada was 6.6 times greater than total personal disposable income (PDI), whereas in 1981, it was 4.8 times greater.[100] Between 1984 and 2005, SFS results show that the real rates of asset and debt growth were 241% and 219%, respectively. In the six-year period from 1999 to 2005, the value of the total assets held by Canadian households increased in real terms by 42% while debts grew by 48%.[101]

In addition to income-related measures, household capacity to manage debt load is frequently assessed in relation to assets through the use of debt-to-asset ratios. As with the income-related measures above, aggregate debt-to-asset ratios are not very revealing, since they do not reveal the proportion of Canadian households with untenable debt-to-asset ratios. The Bank of Canada, therefore, defines "vulnerable" households as those with a ratio of total debt to total assets that exceeds 2.0.[102] The definition of vulnerability is, of course, somewhat subjective. Others might argue that a debt-to-asset ratio in excess of 1.0 already indicates vulnerability and financial insecurity.

However, based on its own measure, the Bank of Canada notes that the proportion of Canadian households above this vulnerable 2.0 debt-to-asset ratio threshold increased from 4.7% in 1999 to 6.9% in 2005. Moreover, the debt of these vulnerable households as a share of total household debt rose from less than 1% in 1999 to 3.6% in 2005.[103]

This increase in vulnerable households seemingly suggests a growing number of Canadians in financial distress compared to the end of the 1990s. Even as aggregate wealth nationwide has increased, a growing number of Canadians is apparently being excluded from the "boom." The extent of financial distress is most evident amongst the

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[99] Centre for the Study of Living Standards (CSLS). *Living Standards Domain of the Canadian Index of Wellbeing*. Prepared for the Canadian Index of Wellbeing. (Forthcoming); Toronto Dominion (TD) Economics. "Canadian Consumers to Carry Economy Through 2007." *Consumer Pulse.* (Toronto: TD Economics, January 8, 2007).
[100] Centre for the Study of Living Standards (CSLS). *Living Standards Domain of the Canadian Index of Wellbeing*. Prepared for the Canadian Index of Wellbeing. (Forthcoming), Table 47D.
[101] Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 2005.
[102] Bank of Canada. *Financial System Review.* (Ottawa: Bank of Canada, December 2006), page 16.
[103] Ibid.

poorest Canadian households. The 2005 SFS reveals that the total value of debt owed by households in the bottom wealth quintile exceeded their assets by nearly 20%.

Whether households have adequate levels of assets to back up their debts also varies by region. In 2005, according to the SFS, Canadian households overall owed $13.52 for every $100 they owned in assets, up from $13.06 per $100 in assets in 1999, but an improvement from $14.44 per $100 in 1984. In Atlantic Canada, however, households owed $14.74 for every $100 in assets in 2005. This debt-to-asset ratio is second only to Ontario, where households owed $14.91 for every $100 in assets in 2005. Contrary to the national improvement in debt-to-asset ratios since 1984, Atlantic Canada's debt-to-asset ratio in 2005 has deteriorated to the 1984 ratio of $14.04 (in 2005 dollars), re-affirming the gradual shift in wealth away from this region noted earlier.[104] Considerable further analysis is required to understand the significance of these regional variations, and the basic numbers are simply reported here as a very preliminary step in this process.

Further analysis is also required on the relationship between different types of assets and capacity to manage debt. Asset ownership can enhance household financial security and debt management capacity, and generally put households on a more solid financial footing than is indicated by income and debt trends alone. This is particularly true if the assets are reasonably liquid and if they can, therefore, easily be converted to cash in the event of an emergency or unexpected crisis.

The largest components of household assets tend to be the values of homes and pensions, which are not as liquid as cash or other savings. Certainly, one's own home is not easily or readily surrendered in order to service debt. Excluding the value of principal residences, therefore, the real increase in household assets during the 1999 to 2005 period was 39% instead of 42%.[105] Because principal residences comprise such a large component of total assets, this seemingly small difference in rate of appreciation actually has a major impact on debt-to-asset ratios. In 2005, when the value of main homes is excluded from total assets, the aggregate nationwide debt-to-asset ratio was $20 owed per $100 of assets, rather than $13.52 per $100.

Like all the aggregate statistics examined in this report, the aggregate debt-to-asset ratio masks huge distributional differences. The debt-to-asset ratio is inversely correlated with wealth, with higher wealth quintiles having much smaller debt-to-asset ratios than lower net worth quintiles. According to the 2005 SFS, households in the lowest (first) wealth quintile owed $119 for every $100 they held in assets in 2005. Such negative wealth signifies a marked lack of financial security and an inadequate capacity for these households to manage and service debt. The second wealth quintile owed $49 for every $100 in assets, and households in the middle quintile owed $35. The top (fifth) quintile owed only $5 for every $100 of assets, not because the value of their debt was particularly low but because the value of their assets was so large.

[104] Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 2005.
[105] Ibid.

Removing the value of principal residences raises the debt-to-asset ratio of the wealthiest group by nearly a third to $6.92 per $100. However, removing the value of principal residences has a much more substantial impact on the debt-to-asset ratios of lower and middle wealth households. The debt-to-asset ratios of the lower 60% of the wealth spectrum rise to: $178 owed per $100 in assets for the lowest wealth quintile, a parity of $100 for the second quintile, and $77 owed per $100 in assets for the middle quintile.[106]

The appreciation of home values in Canada has substantially inflated the value of assets held by all quintiles, but it has had the strongest practical effect on the debt-to-asset ratios of lower and middle-wealth households, at least insofar as this relationship affects debt management capacity. The concentration of assets tied to the value of their main homes (which, as noted, are not easily surrendered even at times of crisis) masks a riskier financial situation for these lower and middle-wealth households, which are not nearly as financially secure as higher wealth quintiles that are less dependent on the value of their main homes for their wealth and whose asset portfolios are more diverse.

5.2. Household Incapacity to Manage Debt

Declaring bankruptcy or repeatedly failing to make scheduled servicing payments towards debt can be the equivalent of signalling a financial SOS. What factors cause households to fall behind in paying bills and contribute to household bankruptcies? Households' financial security can be imperilled by job loss, business failures, health problems, family / relationship break-ups, death or disability of a primary earner, and inability to manage spending due to over-spending and addictions. Such crises can be sufficiently severe to cause a major financial collapse and propel a household into insolvency and even poverty. In tandem with the substantial growth in household debt levels this decade, are signs of severe financial distress amongst households occurring more frequently?

5.2.1. Trends in Personal Bankruptcies

In 2006, nearly 3,500 personal bankruptcies were declared in Nova Scotia—a 13% decline from the previous year's total.[107] The number of bankruptcies also declined across Canada between 2005 and 2006, from 84,600 in 2005 to 79,200 in 2006. Despite this recent retreat, there has been a marked upward trend in the number of personal bankruptcies in Canada over the last three decades. Since 1980, the number of

[106] This analysis of debt-to-asset ratios by wealth quintile after subtracting the value of principal residences is tabulated from Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 2005.
[107] Calculations used in this section are based on data from Statistics Canada. *CANSIM Table 177-0001 – Consumer Bankruptcies, Annual.* Additional data are drawn from the Centre for the Study of Living Standards (CSLS). *Living Standards Domain of the Canadian Index of Wellbeing*. Prepared for the Canadian Index of Wellbeing. (Forthcoming).

bankruptcies has quadrupled in Canada and increased by nearly ten-fold in Atlantic Canada.

Population growth during this time partly explains the longer-term upward trend in bankruptcies. Other catalysts that help partly explain the increasing trend include national legislative changes in the second half of the 1990s that reduced barriers to declaring personal bankruptcies.[108] Credit card debt is a leading cause of bankruptcies. Tax debt, mortgages, and student loans are also key factors in personal bankruptcies.[109]

However, it is noteworthy that analysts have not adequately been able to explain the longer-term upward trend in personal bankruptcies seen in the last quarter century. Thus, while some analysts point to legislative changes facilitating bankruptcy declaration, others disagree. Canada's Office of Consumer Affairs (OCA) cites O'Neill (1998) as noting that: "the incidence of consumer bankruptcies between the 1980s and 1990s . . . has occurred despite changes to the bankruptcy legislation, which was designed to lower the incidence of consumer bankruptcies."[110] The OCA analysis concludes:

> Research to date has been insufficient to explain the strong upward trend in consumer bankruptcies that began in the early 1990s. Further research could examine the effect of a number of variables on consumer bankruptcy, such as the expansion of consumer credit, and the dissolution of family units (i.e. divorce/separation). It may also be interesting to examine whether there has been, in fact, an attitudinal shift in Canadian society towards bankruptcy, as suggested by some preliminary public opinion research (Industry Canada 1997).[111]

Another key focus for future research indicated by the provincial comparisons that follow is whether differences in provincial regulations and legislation can help explain marked regional and provincial differences both in numbers of bankruptcies and in recent trends over time. Unfortunately, time and resources did not permit this level of explanatory investigation for this report. But it is hoped that the presentation of these basic results here will help stimulate the kind of further research recommended by OCA.

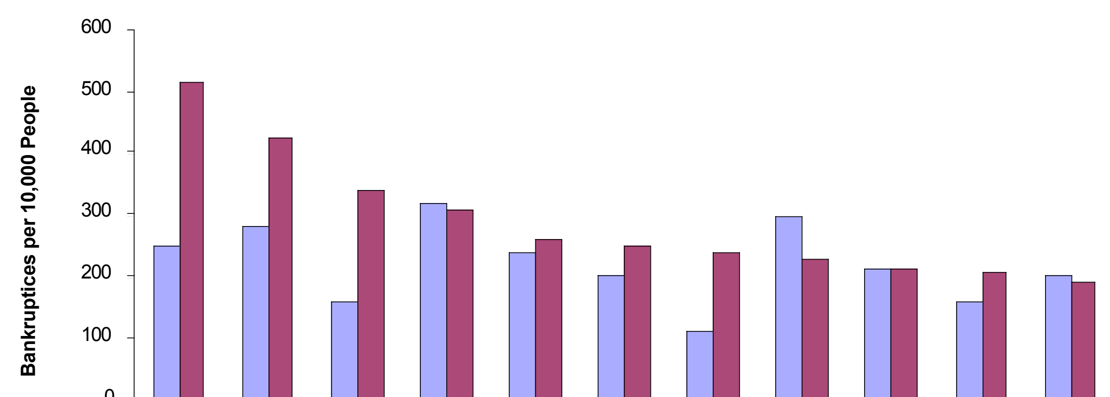
Prior to 1995, regional and national bankruptcy trends moved roughly in tandem. However in the past ten years, the rise in the number of personal bankruptcies in Atlantic Canada has been markedly steeper than at the national level, perhaps corresponding to the

[108] Ibid., page 69.
[109] Office of the Superintendent of Bankruptcy. *An Overview of Canadian Insolvency Statistics up to 2004.* (Ottawa: Industry Canada, 2006), page 11.
[110] O'Neill, Tim. 1998. *A Primer on Canadian Bankruptcies*. (Bank of Montreal Economic Analysis, February 1998). Cited in Industry Canada, Canada's Office of Consumer Affairs. "Chapter 7: Consumer Debt." *The Consumer Trends Report*. (Catalogue no. Iu70-4/18-2005E-HTML, 2005). Available at: http://www.ic.gc.ca/epic/site/oca-bc.nsf/en/ca02111e.html#a72 [accessed June 20, 2008].
[111] Ibid. The 1997 Industry Canada reference in this citation is: Industry Canada, Office of Consumer Affairs. "What Are Current Attitudes Toward Bankruptcy?" *Consumer Quarterly*. (Ottawa: Industry Canada, vol. 2, no. 4, October 1997). Based on Schwartz, Saul, and Leigh Anderson. *An Empirical Study of Canadians Seeking Personal Bankruptcy Protection*.(unpublished research, Carleton University, School of Public Administration, January 1998).

continuing shift in wealth away from the region noted in previous chapters. Since 1995, annual growth in bankruptcies in Atlantic Canada has averaged 9%, compared with less than 1% in Canada as a whole. In Nova Scotia, the annual rate of increase in the number of bankruptcies averaged 6% in this period. As noted above, careful examination of differing provincial regulations and other factors is required to help explain this trend.

With the exception of Prince Edward Island, households in Atlantic Canada are much more likely to declare bankruptcy than elsewhere in Canada, as illustrated by Figure 5.4 below. Personal bankruptcy rates in Newfoundland and Labrador, Nova Scotia, and New Brunswick are well above the national average and highest among all the provinces. In 2005, for example, there were 262 personal bankruptcies per 10,000 people in Canada compared with 517 in Newfoundland and Labrador, 424 in Nova Scotia, and 343 in New Brunswick. In Prince Edward Island, there were 243 bankruptcies per 10,000—somewhat below the national average. Bankruptcy rates in the other provinces range from 192 in British Columbia to 308 in Quebec (see Figure 5.4).[112]

Figure 5.4. Consumer Bankruptcies per 10,000 People, by Province, 1999 and 2005



	NL	NS	NB	QC	CA	ON	PE	AB	MB	SK	BC
1999	249.3	283.5	161.5	317.8	240.1	201.9	115.2	297.4	215.8	159.3	203.9
2005	517.3	423.9	343.1	308.4	262.3	249.6	242.6	231.6	212.9	206.1	192.1

Source: Centre for the Study of Living Standards (CSLS). *Living Standards Domain of the Canadian Index of Wellbeing.* Prepared for the Canadian Index of Wellbeing. (Forthcoming), Table 21. Calculations by CSLS based on Statistics Canada's CANSIM Tables 177-0001 and 051-0001.

Declaring bankruptcy is typically the last resort for households unable to manage an overwhelming debt burden. As noted, there are many factors that may contribute to such an intractable financial situation and to an inability to service debt. These include a prolonged and / or unexpected interruption of income, which in turn may be due to job loss, death or disability of a primary earner, or individual circumstances such as ailing

[112] Centre for the Study of Living Standards (CSLS). *Living Standards Domain of the Canadian Index of Wellbeing*. Prepared for the Canadian Index of Wellbeing. (Forthcoming), Table 21.

health, unexpected family obligations, or changes in family structures like the break-up of relationships.

In 2003, for example, 27.5% of bankruptcy debtors were divorced or separated, while only 7.2% of Canadians were divorced or separated. An analysis by the Office of the Superintendent of Bankruptcy comments:

> When compared to the Canadian population as a whole, divorced/separated people are over-represented among those who have filed bankruptcies and proposals, while common-law/married people are under-represented. This suggests a link between divorce and the financial difficulties that may arise from it and that may lead to insolvency.[113]

A declaration of bankruptcy is analogous to pressing a "financial reset button." Bankruptcy erases nearly all of an individual's debts except for student loans (if bankruptcy is filed within ten years after the completion of studies), fines, alimony, or stolen goods. However, declaring bankruptcy is an onerous process that directly affects an individual's credit history for ten years and severely limits his / her ability to secure credit far into the future.

5.2.2. Mortgages in Arrears and Other Credit Delinquencies

Inability to make payments on debt and falling behind in debt-servicing payments are clear signs of debt management problems. In some cases, they may be precursors to declarations of bankruptcy.

In terms of mortgage payments, the Canadian Mortgage and Housing Corporation's (CMHC) *Canadian Housing Observer* reports that, at least through 2005, "Canadians' ability to pay has kept up with the increase in house prices."[114] While the aggregate value of mortgage debt held by Canadian households has been increasing since 1999, the interest burden on mortgages remained low during this same time period, and on several occasions even retreated.[115] On a national level, therefore, and in aggregate, the household sector appears to have the financial capacity to service its mortgages. For example, the CMHC notes that, in 2004, the average monthly mortgage payment in Canada was 2% lower in real terms than it was in 1989. The annual mortgage payment-to-income ratio was 31% in 2004, a sharp drop from more than 49% in 1989.[116]

The term "mortgage in arrears" refers to mortgage payments that are over due. The rate of mortgages in arrears in Canada is currently at a record low, due to low mortgage rates

[113] Office of the Superintendent of Bankruptcy. *An Overview of Canadian Insolvency Statistics Up to 2004* (Ottawa: Industry Canada, 2006), page 5.
[114] Canada Mortgage and Housing Corporation (CMHC). *Canadian Housing Observer 2005.* (Ottawa: CMHC, 2005), page 32.
[115] Ibid., page 35.
[116] Ibid., page 46.

and a strong labour market.[117] For the reasons noted earlier, including its much smaller sub-prime mortgage market, Canada has thus far remained relatively immune from the sub-prime mortgage crisis in the United States, which has seen mortgages in arrears and home foreclosures rise dramatically south of the border since early 2007. By contrast, residential mortgages in arrears in Canada have dropped in recent years to their lowest rates since 1990. Even in mid-2007, as mortgage arrears and foreclosures skyrocketed in the U.S., industry representatives in Canada noted that mortgage arrears in Canada were at just 0.5%—still near record lows.[118]

Atlantic Canada has the highest level of mortgages in arrears in the country.[119] In fact, the rate of mortgage arrears in the Atlantic region has traditionally exceeded the national level. By the end of 2006, 0.41% of mortgages in Atlantic Canada were in arrears, substantially higher than the national rate of 0.25%, but still relatively low. In fact, the rate of arrears in the Atlantic region has actually been decreasing steadily since 2001, when it was above 0.6%.

While the Atlantic region typically accounts for only 8% of Canada's existing mortgages, it accounts for about 12% to 13% of all the residential mortgages in arrears. In fact, the region's share of national mortgage arrears has exceeded 10% since 2001. The greater share of arrears in this region may reflect the greater difficulty that Atlantic Canadian households encounter in servicing their mortgages, due in turn to the region's generally lower incomes and higher unemployment rates compared to national averages. However, even this comparative perspective must be put in the context of the overall low rates of mortgages in arrears—both nationally and in Atlantic Canada.

Nevertheless, this generally positive situation is no reason for complacency in present circumstances. Some have predicted that mortgage arrears may increase in the short to medium term as households face higher interest rates (currently higher than in 2004) and a cost crunch from higher energy and food costs that began to escalate in 2004 and are now at unprecedented levels. Any resultant decline in economic conditions may quickly accelerate the proportion of mortgages in arrears. Indeed, by mid-2007, overall mortgage arrears in Canada were reported by some analysts to have risen to 0.5% from the 0.25% rate of 2005–2006, though even this remained far lower than in the U.S.[120]

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[117] Tal, Benjamin. "Too Good to Be True?" *The Bankruptcy Report*. (Toronto: Canadian Imperial Bank of Commerce (CIBC) World Markets, November 20, 2006); Tal, Benjamin. "Will Bankruptcies Continue to Fall?" *The Bankruptcy Report.* (Toronto: CIBC World Markets, February 22, 2007).

[118] CBC News In-Depth. "The U.S. Subprime Mortgage Meltdown: Will It Spread to Canada?" August 31, 2007. Available at: http://www.cbc.ca/news/background/personalfinance/mortgage-meltdown.html [accessed February 29, 2008].

[119] Canadian Bankers Association. *Mortgages in Arrears*. Available at: http://www.cba.ca/en/ViewDocument.asp?fl=6&sl=110&tl=&docid=421 [accessed September 12, 2007].

[120] The 0.5% figure is cited in CBC News In-Depth. "The U.S. Subprime Mortgage Meltdown: Will It Spread to Canada?" August 31, 2007. Available at: http://www.cbc.ca/news/background/personalfinance/mortgage-meltdown.html [accessed February 29, 2008].

Indeed, it is noteworthy that the U.S. is not the only country to have seen mortgage arrears escalate recently. On June 17, 2008, credit ratings agency Standard and Poor's reported that Australia's mortgage arrears rate rose to a record in March 2008, as borrowers struggled to make repayments because of rising inflation and higher interest rates. Payments more than 30 days late on standard mortgages increased to 1.45% from 1.37% in January and 1.09% in the December 2007 quarter.[121]

In the U.K., the Financial Service Authority (FSA) regulatory agency reported that one in five U.K. borrowers was concerned that they may not be able to meet their mortgage repayments over the next twelve months. According to Chris Pond, FSA director of financial capability: "Economic conditions are getting tougher, putting pressure on family finances." Though home repossessions have been at historically low levels in Britain in recent years, they have risen dramatically in recent months in response to an expanding credit crunch. Figures from the Council of Mortgage Lenders recorded a 20% spike in repossessions in 2007, and these are predicted to rise a further 50% to 45,000 by the end of 2008.[122]

Similar conditions to those reported in Australia—of rising interest and inflation (largely due to soaring energy costs)—exist in Canada, which could potentially fuel an increase in mortgage arrears. The most recent available data from the Canadian Bankers Association, for example, shows Alberta mortgage arrears just beginning to trend upwards from their lowest rates (less than 0.2%) since 1990, though they still remain far below their 0.6% peak in 1997 and even below the 0.4–0.5% rate that prevailed from 1999–2004.[123]

Ontario Member of Parliament, Garth Turner, who has authored a new book titled "The Greater Fool: The Troubled Future of Real Estate," argues that the pieces are in place for a real estate collapse in Canada due largely to an unreasonable doubling in real estate prices over the last five years while Canadian incomes have stayed flat.[124] In sum, while the evidence continues to show historically low rates of mortgage arrears in Canada, it is too early to tell whether this country will remain insulated and relatively immune from

[121] Sydney Morning Herald. "Mortgage Arrears Rise to Record High." June 18, 2008. Available at: http://www.silobreaker.com/DocumentReader.aspx?Item=5_870318108 [accessed June 21, 2008]; Sun Herald. "Mortgage Stress Hits New Highs." June 19, 2008. Available at: http://www.news.com.au/heraldsun/story/0,21985,23886516-664,00.html?from=public_rss [accessed June 21, 2008].

[122] Reuters. "One in Five UK Borrowers Fears for Mortgage Payment." March 3, 2008. Available at: http://www.reuters.com/article/rbssFinancialServicesAndRealEstateNews/idUSL0380280520080304 [accessed June 21, 2008]; Agent Cities website. "A Fifth of Brits Fear Mortgage Arrears." March 5, 2008. Available at: http://www.agentcities.org/00000172-a-fifth-of-brits-fear-mortgage-arrears.html [accessed June 21, 2008].

[123] Historical graph illustrating Alberta Mortgage Arrears as reported by the Canadian Bankers Association is available on the Calgary Real Estate Market Blog website at: http://calgaryrealestatemarketblog.files.wordpress.com/2008/05/alberta_mortgage_arrears_on_the_rise_large.png. Full article containing graph is at: http://calgaryrealestatemarketblog.wordpress.com [accessed June 21, 2008].

[124] CTV News. "Experts Split over Future Housing Prices in Canada." March 24, 2008. Available at: http://www.ctv.ca/servlet/ArticleNews/print/CTVNews/20080324/housing_prices_080324/20080324/?hub=Specials&subhub=PrintStory [accessed June 21, 2008].

trends in the U.S. and internationally, or whether Canada is on the cusp of a significant turnaround that will see rising rates of mortgage arrears here.

When credit delinquencies as a whole are considered, Canadian banking experts argue that recent trends in both credit default rates and bankruptcies have remained well within acceptable limits, have not signified unusual stress, and have not been a major cause for concern.[125] For example, the credit card delinquency ratio has been below 1% nationally since 1996, with the ratio hovering between 0.7% and 0.8% since 2000.[126] Credit card delinquency data by region are not available. Even during the recession of the early 1980s, credit card delinquency rates ranged from 1% to 1.7%, and during the recession of the early 1990s, the rates ranged between 1% and 1.8%. Moreover, the Canadian Bankers' Association estimates that about 70% of Canadian credit card holders typically pay off their monthly credit card balances all or most of the time.[127] In sum, even when economic downturns are factored in, the evidence to date indicates that the vast majority of Canadians have effectively managed their debt-servicing obligations in the past quarter century.

In Focus: Managing Student Debt

The 2005 Survey of Financial Security (SFS) indicates that younger households (typically households with income earners younger than 35 years of age) are the most debt ridden relative to their income and assets. Student debt is a key source of these households' indebtedness.

Research findings show that student loan repayment obligations can exact a major toll on household finances and undermine the long-term financial security of a significant proportion of graduates. For example, in 2005 the average student debt-to-earning ratio of graduates from Maritime universities who are making loan payments and also reporting income was 11%, significantly higher than the 8% benchmark commonly used as a threshold of difficulty in repaying loans. Evidence also suggests that the student debt-to-earning ratio is higher for Maritime university graduates than for graduates who live elsewhere in Canada.[1]

1. Maritime Provinces Higher Education Commission. *Five Years On: A Survey of Class of 1999 Maritime University Graduates*. (Fredericton: Maritime Provinces Higher Education Commission, 2006), page 39.

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125 Tal, Benjamin. "Too Good to Be True?" *The Bankruptcy Report.* (Toronto: CIBC World Markets, November 20, 2006); Tal, Benjamin. "Will Bankruptcies Continue to Fall?" *The Bankruptcy Report* (Toronto: Canadian Imperial Bank of Commerce (CIBC), World Markets, February 22, 2007); Tal, Benjamin. *Household Credit Analysis.* (Toronto: CIBC World Markets, July 5, 2006); Scotia Economics. *Canadian Household Finances*. (Toronto: Scotiabank Group, September 12, 2006).

126 Canadian Bankers Association. *Credit Card Statistics*. (Canadian Bankers Association, October 2006). Available at: http://www.cba.ca/en/ViewDocument.asp?fl=6&sl=110&tl=&docid=421 [accessed September 12, 2007].

127 Canadian Bankers Association. "Taking a Closer Look: Credit Cards." (Canadian Bankers Association, May 2005). Available at: http://www.cba.ca/en/content/stats/fastfacts/050505-Credit%20Cards-TCL-leaj.pdf [accessed September 14, 2007].

In Focus: Managing Student Debt (continued)

Post-secondary graduates are generally experiencing greater difficulties managing their student debts. Results from Statistics Canada's National Graduates Survey point to an increase in the proportion of students struggling to repay student loans. For example, five years after graduation, 41% of the class of 2000 reported difficulties repaying their student debts, up sharply from the 13% of graduates of the class of 1990 who reported such difficulties five years after graduation.[2] The ability of graduates to fully repay their loans has also eroded since the early 1990s. Five years after graduation, 40% of the class of 2000 had fully repaid their government student loans—a substantial drop from 57% of the class of 1990 able to do so within five years.[3]

Some graduates, however, are managing to make inroads in repaying their student debts. Graduates of Maritime universities from the class of 2003 had reduced the average amount of debt outstanding by approximately 13% two years after graduation. As well, two years after graduation, 17% of the class of 2003 had repaid their loans—up from 11% of the class of 1999 who had repaid their loans two years after graduation.[4]

Evidence indicates that the ability of postsecondary graduates to repay their student loans is generally affected more by income upon graduation than by the size of the loan itself.[5] Such earning power, in turn, is affected by the jobs awaiting students upon graduation, as well as by the particular discipline the graduate studied.

One Statistics Canada analysis found many graduates underemployed upon graduation and working in jobs for which they were overqualified based on their schooling—a condition that can also have adverse consequences for earnings and capacity to repay debt in a timely way. For the purposes of this study, Statistics Canada defined an overqualified worker as a strongly attached labour market participant with a university degree working in an occupation requiring only a high school education or less. In 2001, the study found that an estimated one-fifth of working Canadians who held university degrees were overqualified—a rate marginally higher than in the early 1990s.[6]

Government programs have been put in place at both the provincial and federal levels in an attempt to alleviate the frequently crushing burden of student debt. However, evidence to date suggests that the uptake for such interest relief and debt reduction programs has not been as high as originally anticipated.[7] While these programs can be helpful, the majority of indebted graduates do not participate in them either because they do not qualify for various reasons, or because they are unaware of them or they do not properly follow the often complex application procedures. Moreover, even those who do tap into these interest relief and debt reduction programs report that the programs' benefits are compromised by bureaucratic red tape such as the extensive documentation that is required to approve eligibility.[8]

2. Statistics Canada. "Follow-up Survey of Graduates 2005." *The Daily*. (Ottawa: Statistics Canada, May 2, 2007).
3. Allen, Mary, Shelley Harris, and George Butlin. *Finding Their Way: A Profile of Young Canadian Graduates*. (Ottawa: Statistics Canada, catalogue #81-595-MIE2003003, February 2003).
4. Maritime Provinces Higher Education Commission. *Two Years On: A Survey of Class of 2003 Maritime University Graduates*. (Fredericton: Maritime Provinces Higher Education Commission, 2007), page 42.
5. Kapsalis, Constantine. *Factors Affecting the Repayment of Student Loans*. (Ottawa: Statistics Canada, Minister of Industry, catalogue no. 81-595-MIE, March 2006), pages 9–10.
6. Statistics Canada. *The Dynamics of Overqualification: Canada's Underemployed University Graduates*. (Ottawa: Minister of Industry, no. 39, catalogue no. 11-621-MIE, April 2006).
7. Maritime Provinces Higher Education Commission. *Two Years On: A Survey of Class of 2003 Maritime University Graduates*. (Fredericton: Maritime Provinces Higher Education Commission, 2007), page 51.
8. Berger, Joseph, Anne Motte, and Andrew Parkin. "Chapter Five: Student Debt: Trends and Consequences." *The Price of Knowledge: Access and Student Finance in Canada*. (Montreal: The Canada Millennium Scholarship Foundation, November 2006), page 11.

6. Wealth Distribution

Due to time and resource constraints, the central focus of this report has been on trends in Canadian household debt, and the authors were unable to provide the same level of detail on trends in asset holdings, asset sources, and characteristics of asset holders, though such analysis is essential.

Thus, Chapters 3 through 5 focused on the debt side of household balance sheets, including the magnitude, distribution, types and sources of debt, the characteristics of debt holders, and households' capacity to service their debt loads—all of which affect financial security. However, the extent to which debt is a risk to financial security also depends on asset levels, and on the types of assets households own (particularly their relative liquidity). In fact, it is the level of debt in the *context* of asset ownership and of overall net worth that is most indicative of household financial security.

Where possible, the previous analysis has, therefore, referenced asset ownership, though not at the same level of detail as applied to the analysis of debt. To correct that balance at least partially, in the absence of a detailed analysis of assets, this chapter, therefore, returns to that larger contextual balance sheet perspective to examine household wealth in Canada and Atlantic Canada.[128]

The balance between household assets and debts determines household net worth, where net worth—or wealth—is defined simply as the difference between assets and debts (i.e., assets minus debts). Wealth serves as a safety net against downturns in household finances. Generally speaking, the greater the magnitude of wealth, the larger the safety net. From this perspective, wealth provides a form of insurance against unanticipated future consumption and expenditure needs, and a resource from which households can draw rather than relying on income alone. A comprehensive assessment of debt requires a contextual look at wealth. This chapter, therefore, extends the distributional analysis of debt in Chapter 4 to summarize the distribution of household wealth in Canada.

Chapter 4 identified the prevalence of particular types of debt among different households according to five wealth groups, or quintiles. We saw that low-wealth households tended to rely on higher cost debt, including credit cards (average interest: 18.9%) and even payday loans with often-exorbitant interest charges, while wealthier households had a greater capacity to leverage lower cost debt, such as lines of credit that generally carry interest charges at prime rate (4.75% as of April 23, 2008) plus 1.5−2% (= 6.25−6.75%).

Not only do assets like homes serve as equity against low-cost loans that can, in turn, be used to leverage further asset building, but the types of debt that households owe and

[128] A detailed analysis of asset trends and holdings, as well as the characteristics of asset-holders—similar to the focus on household debt and the characteristics of debt-holders in this report—is an essential follow-up to this present study, and will certainly deepen understanding of household financial security.

their ability to manage that debt also affect their net worth. The costs of servicing higher cost debt can limit households' efforts to build assets and may, therefore, detract from their wealth, while the magnitude of wealth affects the ability of households both to manage their existing debt and to access further sources of credit. In other words, there is an intimate relationship between wealth and debt that may either further enhance or undermine financial security, with some low-wealth households caught in a vicious cycle that can be difficult to escape. To begin to understand this relationship, a distributional analysis of wealth is essential.

This chapter draws from Statistics Canada's 2005 Survey of Financial Security (SFS) to analyse the distribution of household wealth in Canada. Some recent secondary analyses also provide very useful breakdowns of wealth distribution in Canada, including Statistics Canada's 2006 report titled "Revisiting Wealth Inequality," and The Canadian Centre for Policy Alternative's 2007 study titled "The Rich and the Rest of Us: The Changing Face of Canada's Growing Gap."[129]

6.1. Wealth Distribution by Region and Quintile

The SFS shows that the aggregate value of Canadians' wealth has more than tripled in real terms in just over two decades. The net worth of Canadian households totalled $4.9 trillion in 2005—42% higher than in 1999 and 245% higher than the 1984 value (in constant 2005 dollars). The increase in household wealth since 1984 is due to the fact that the aggregate growth in household assets in real dollar terms has far exceeded the real increase in debt levels.[130]

More recently, the substantial appreciation of wealth since 1999 has occurred despite the fact that debt has been increasing at a faster rate than assets in relative terms (by 48% versus 42%, respectively). This is because the total value of assets owned by Canadian households ($5.6 trillion in 2005) far exceeded the total value of their debts ($760 billion in 2005), so that even a modest increase in the value of assets can increase net worth (assets minus debts), even if debts are appreciating at a faster relative rate than assets.

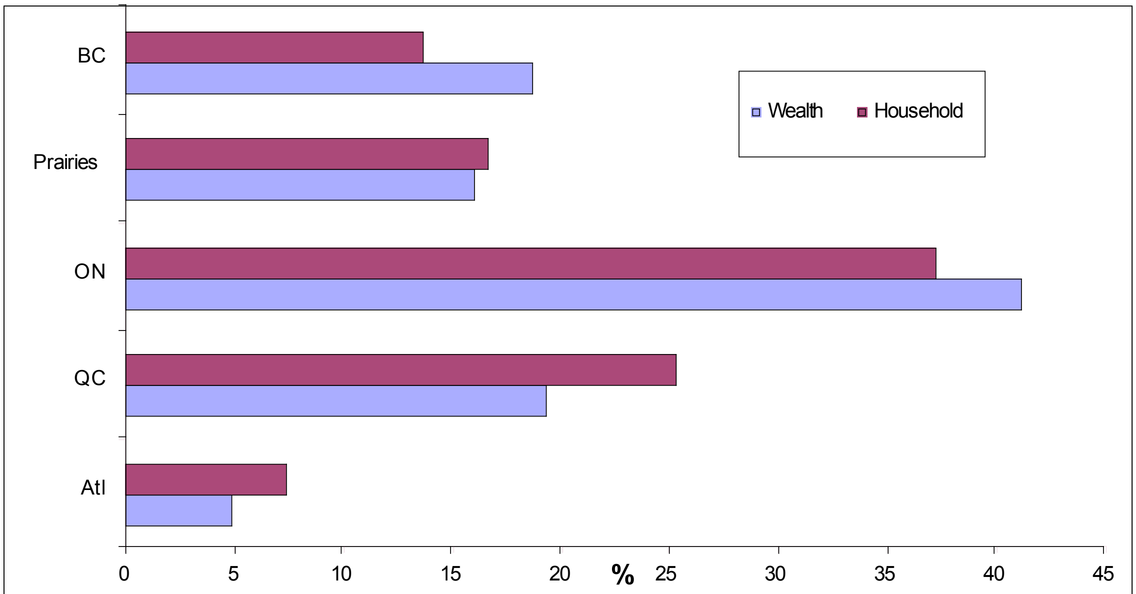
Atlantic Canadians now hold a smaller share of Canada's wealth than they did in the 1980s. In 2005, households in the region owned 4.9% of Canada's wealth, down from a share of about 5.3% in both 1999 and 1984, according to the 2005 SFS data and the 1984 Assets and Debt Survey. The region also has a considerably smaller (and shrinking) stake in national wealth than its share of Canada's households (7.4% in 2005). On a per household basis, wealth is disproportionately concentrated in Ontario and British

[129] Morisette, René, and Xuelin Zhang. "Revisiting Wealth Inequality." *Perspectives on Labour and Income.* (Ottawa: Minister of Industry, 7 (12), catalogue no. 75-001-XIE, December 2006), page 13; Yalnizyan, Armine. *The Rich and the Rest of Us: The Changing Face of Canada's Growing Gap.* (Toronto: Canadian Centre for Policy Alternatives, March 2007).

[130] Unless otherwise specified, all data in this chapter are drawn from Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 2005.

Columbia. Ontario accounts for 41.2% of the country's wealth and 37.2% of households, while BC accounts for 18.7% of wealth and 13.7% of households (see Figure 6.1 below). Although the sample size of the 2005 SFS does not allow a full provincial breakdown, and though the Prairie Provinces are seen to hold a slightly smaller share of national wealth than their proportion of households, it is likely that households in Alberta are the exception among the Prairie Provinces in probably owning a greater share of national wealth than its proportion of national households, given the province's oil-driven economic boom.

Figure 6.1. Regional Share of Canada's Wealth and Households (Percent), 2005



	Atl	QC	ON	Prairies	BC
Household	7.4	25.2	37.2	16.6	13.7
Wealth	4.9	19.3	41.2	16.0	18.7

Source: Statistics Canada, Income Statistics Division. *Survey of Financial Security*, 2005.

Although the Atlantic region's share of national wealth is eroding, the region's wealth has increased in absolute terms. The net worth of households in Atlantic Canada was valued at $237 billion in the 2005 SFS—31% greater in real terms than in 1999. By comparison, total Canadian wealth grew by 42% during this period, and net worth in Atlantic Canada had the slowest rate of appreciation in the country between 1999 and 2005.

The slower rate of wealth growth in Atlantic Canada reflects the growing gap between debt and asset growth in the region—a gap that was wider than in any other region of the country. As Chapter 2 notes, households in the region incurred the fastest increase in debt at 62%, while assets grew by just 35%. As a consequence, we have also seen that Atlantic

Canada owns a smaller share of Canada's household assets (4.9%) than its share of total household debt (5.4%).

Atlantic Canada's diminishing share of national wealth is also reflected in the slower growth of median household net worth. Median household net worth in the Atlantic region grew by 16% between 1999 and 2005, trailing the Canadian rate of 23%. Figure 6.2 below shows that, in 2005, the median household wealth in Atlantic Canada was $111,445—25% below the national level ($148,350) and the second lowest among Canadian regions after Quebec ($104,000). In 2005, British Columbia and Ontario led the country in median household wealth at $199,700 and $192,000, respectively. These two provinces also experienced the fastest rate of growth in overall wealth since 1999—64% in British Columbia and 42% in Ontario.

Figure 6.2. Median Wealth of Households (2005 constant $), by Region, 1999 and 2005

	Atl	QC	ON	Prairies	BC	CA
1999	$95,734	$88,140	$147,514	$135,364	$132,484	$120,451
2005	$111,445	$103,701	$192,161	$141,819	$199,746	$148,350

Source: Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 2005.

6.2. Wealth by Quintile and Other Household Characteristics

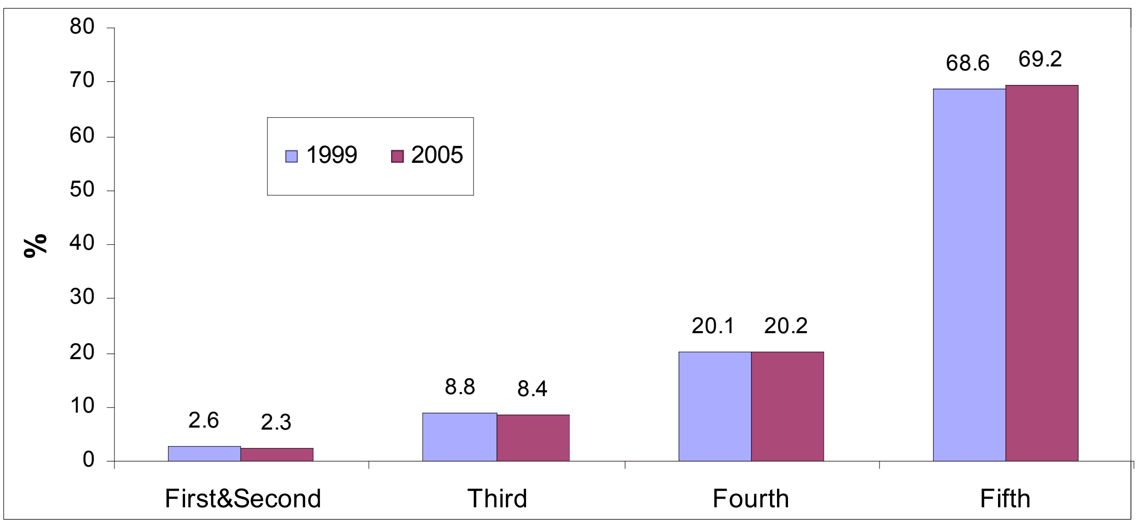
One of the most important dimensions of any discussion of wealth is its distribution among different household groups. Focusing just on the aggregate value of wealth can be misleading, since averages can be pulled up by massive gains at the top of the wealth spectrum. While Canada's appreciating value of total household wealth appears to indicate robust wealth accumulation and, therefore, increased financial security for

Canadians in general, this trend may mask heightened financial insecurity for poorer Canadians.

In fact, the 2005 SFS shows that the wealth gap between rich and poor in Canada widened between 1999 and 2005, continuing the trend evidenced in the 1984 Assets and Debt Survey (ADS) and the 1999 SFS.[131] In 2005, the poorest 40% (first and second quintiles) of Canadian households held just 2.3% of the country's net worth (or wealth), down slightly from 2.6% in 1999, while the wealthiest (fifth) quintile held 69.2% of the country's wealth, up from 68.6% in 1999 (Figure 6.3 below). In absolute dollar terms, the richest 20% of households had 33 times the wealth of the poorest 40% in 2005 (Figure 6.4 below).

Examining wealth over a longer historical time period, the richest 10% of Canadians increased their wealth in real terms by 122% between 1970 and 1999, and by 47% between 1984 and 1999. The poorest 10% saw an increase in their average *negative* wealth (the degree to which their debts exceeded their assets) of 28% between 1970 and 1999 and of 79% between 1984 and 1999.[132] In other words, wealthy Canadians are getting wealthier while poor Canadians are getting poorer.

Figure 6.3. Share of Wealth (Percent), by Net Worth Quintile, Canada, 1999 and 2005



Source: Statistics Canada, Summary Tables Online. *Income, Pensions, Spending and Wealth*: *Assets and Debts Held by Family Units, Total Amounts, by Net Worth Quintile*. Available at: http://www40.statcan.ca/l01/cst01/famil115f.htm [accessed May 7, 2007].

131 Kerstetter, Steve. *Rags and Riches: Wealth Inequality in Canada.* (Toronto: Canadian Centre for Policy Alternatives, 2002).
132 Ibid., pages 4 and 13, especially Table 1-4.

The evidence indicates that Canada's growing wealth or net worth between 1999 and 2005 primarily benefited households in the highest (fifth) wealth quintile. These households experienced the fastest growth in wealth (43%) of any group in this recent period. The wealth of the richest 20% of Canadian households now exceeds $3.4 trillion, as indicated in the 2005 SFS. While households in the top 20% wealth quintile owned 69% of the country's wealth in 2005, they accounted for 25% of Canadian debt. For these wealthiest households, therefore, debt accumulation is not necessarily a detriment to their financial security. They are more likely to direct the low-interest debt (to which they have greater access due to their substantial assets) towards financing further asset growth (i.e., borrowing in order to leverage investments that yield high rates of return), rather than using debt to pay bills or meet current spending requirements, as often tends to be the case in lower wealth households.

At the other end of the spectrum, households in the first or lowest wealth quintile carry 5% of Canada's household debt yet share in none of its wealth. Between 1999 and 2005, the debt level of the poorest Canadian households grew by 51%. At the same time, the value of the poorest quintile's assets rose 48% (in real terms). However, this asset growth was insufficient to raise these households' net worth above zero. In fact, their total debts exceeded their total assets by a greater margin in 2005 than in 1999. The poorest 20% of Canadian households accounted for more than 5% of the country's debt load but held only 1% of total assets and had negative wealth. Combined with the second lowest quintile, the poorest 40% of Canadian households owned only about 4% of all assets in 2005 but was responsible for 19% of Canada's household debt.

As noted, the magnitude of negative net worth or negative wealth for the lowest wealth quintile has actually worsened since 1999 because its debt load has risen faster than its assets in both relative and absolute terms. Thus, the poorest 20% of Canadian households (first wealth quintile) collectively had a *negative* net worth of $6.4 billion in 2005, compared to $3.7 billion in 1999. As noted, negative wealth means that total debts for the bottom quintile exceeded total assets by these amounts, so higher numbers signify greater indebtedness and financial insecurity. This negative wealth (the degree to which debts exceeded assets) grew by more than 70% between 1999 and 2005, signifying increasing financial distress and insecurity for the nation's poorest households (Figure 6.4 below).

Median net worth for the lowest wealth quintile eroded from $1,152 in 1999 to $1,000 in 2005 (in 2005 constant dollars).[133] In sharp contrast, households in the highest quintile had a median net worth of $862,900 in 2005. The *median* household wealth for the poorest 20% of Canadian households was $1,000, even though the *average* for that quintile was negative $2,400 (i.e. debts exceeded assets by $2,400). It should be recalled here that the median value for each quintile refers to the point where half the households fall above that value and half below. The difference between the median and the average indicates that the magnitude of negative wealth (or the degree to which debts exceeded

[133] Statistics Canada. *The Assets and Debts of Canadians: An Overview of the Results of the Survey of Financial Security.* (Ottawa: Minister of Industry, catalogue no. 13-595-XIE, 2001), page 30; Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 2005.

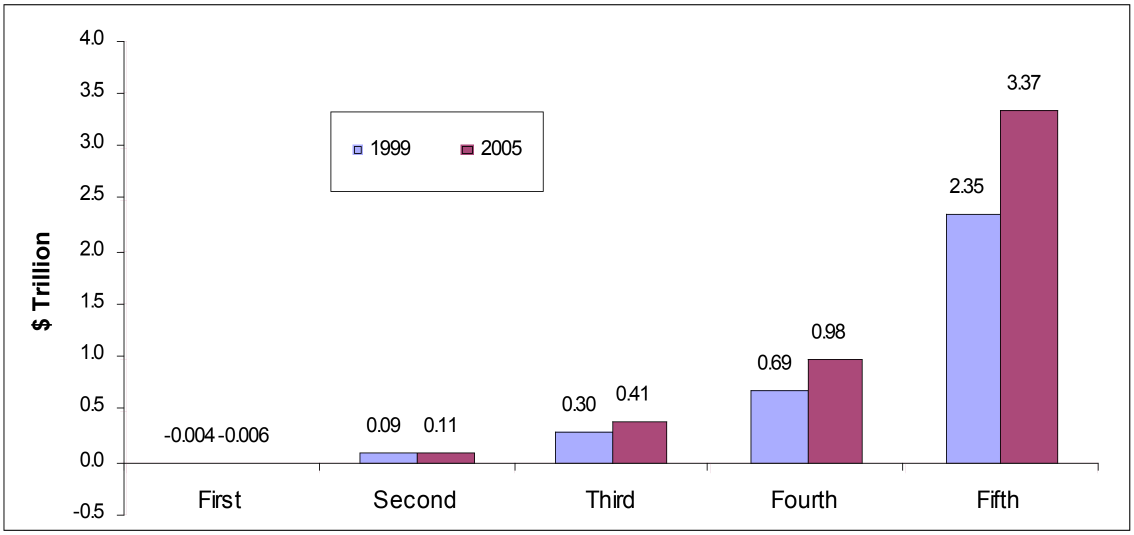
assets) of the very poorest Canadian households (less than 20%) exceeded the meagre positive wealth of other households in the lowest wealth quintile.

Similarly, the $862,900 *median* household wealth of the richest 20% of households conceals the enormous wealth of the very richest Canadians, which raises the *average* wealth of the top quintile to $1.26 million. An analysis of Statistics Canada's 1984 Assets and Debt Survey estimated that the wealthiest 5% of Canadian households, in fact, hold between 41% and 46% of the country's wealth, and that the wealthiest 1% alone own between 22% and 27%.[134] Atlantic Canada also has its share of billionaires—the Irvings with wealth totalling $5.3 billion, and Harrison McCain and the Sobey family, each with about $2 billion. John Bragg (Oxford Frozen Foods and EastLink) and John Risley (Fishery Products) have about $700 million each, and the Jodrey family in Hantsport, Nova Scotia, has well over half a billion dollars in wealth.[135]

One difficulty in producing precise estimates of the wealth holdings of the very richest Canadians is the apparent disinclination of many multi-millionaires to be interviewed in Statistics Canada surveys.[136] The key point here, however, is that even a quintile analysis masks major disparities within quintiles—particularly at the top of the wealth spectrum.

[134] Davies, J.B. "The Distribution of Wealth in Canada." In Edward Wolff (ed). *Research in Economic Inequality, 4*. (Greenwich, CT: JAI Press, 1993), pp. 159–180. Cited in Morisette, Rene, Xuelin Zhang, and Marie Drolet. *The Evolution of Wealth Inequality in Canada, 1984–1999.* (Ottawa: Statistics Canada, catalogue 11F0019. No. 187, February 22, 2002). Available at: http://www.statcan.ca/english/research/11F0019MIE/11F0019MIE2002187.pdf [accessed June 22, 2008].
[135] Gray, John, Megan Harman, Lauren McKeon, Zena Olijnyk, and Regan Ray. "The Rich 100: Canada's Wealthiest People." *Canadian Business Magazine*. (November 30, 2007).
[136] As implied in the notes on Data Sources and Definitions in René Morisette, Xuelin Zhang, and Marie Drolet. "Wealth Inequality." *Perspectives on Labour and Income.* (Ottawa: Minister of Industry, 3(2), catalogue no. 75-001-XIE, February 2002). Available at: http://www.statcan.ca/english/freepub/75-001-XIE/00202/ar-ar_200202_01_a.html [accessed June 22, 2008].

Figure 6.4. Net Worth by Wealth Quintile ($ Trillions, 2005 Constant $), Canada, 1999 and 2005



Source: Statistics Canada, Summary Tables Online. *Income, Pensions, Spending and Wealth*: *Assets and Debts Held by Family Units, Total Amounts, by Net Worth Quintile*. Available at: http://www40.statcan.ca/l01/cst01/famil115f.htm [accessed May 7, 2007].

Households in the middle of the wealth distribution scale are on a more solid financial footing than their poorer counterparts insofar as they have positive net worth. In 2005, middle-wealth households had assets valued at $626 billion, substantially higher than their debt burden of $217 billion. As a result, the total net worth (assets minus debts) of middle-wealth households increased by 35% (in real terms) from 1999 to 2005 to $409 billion (Figure 6.4 above). Debt levels grew by 45% in this period.

A closer look at the holdings of middle-wealth households indicates that financial security may be more tenuous than the aggregate wealth figures for that quintile indicate. Middle-quintile households' increase in wealth between 1999 and 2005 was almost entirely due to appreciation in the value of their homes, which are not easily sacrificed even at times of financial crisis. In fact, the middle quintile's wealth is primarily invested in their main residences, which accounted for over 55% of these households' total assets in 2005. Removing the value of main homes reveals that the net worth of middle quintile households in 2005 would actually be 7% lower in 2005 than in 1999—indicating that more liquid forms of wealth may be declining for middle-wealth Canadians. Wealthier households (fourth and fifth quintiles) are relatively less reliant on their homes as a source of wealth than those in the middle of the wealth spectrum.

Relative to the wealthiest households, middle-wealth households now have a declining proportion of the country's overall wealth. In 2005, this middle quintile's share of Canada's net worth was 8.4%, compared to 8.8% in 1999. (Recall from Chapter 4 that middle-wealth households accounted for 29% of total outstanding debt in Canada in 2005.) Together, the bottom *60%* of Canadian households accounted for just 10.7% of

Canada's wealth in 2005, down from 11.4% in 1999 (Figure 6.3 above). The 2005 SFS, therefore, re-affirms that the wealth disparity between the richest Canadians and most others continues to grow steadily.

The substantial gap in wealth may presage future social problems including heightened alienation and anti-social behaviour among excluded groups, and potentially unsustainable behaviour among the wealthiest groups. At the same time, the further decline in the balance sheets of poor Canadian households, both in absolute numbers and proportional to total wealth, and their increased indebtedness, signals heightened risk to the financial security of large numbers of Canadians and a corresponding decline in their financial wellbeing.

6.2.1. Older and Wealthier

The 2005 SFS reveals that households with older income-earners generally experienced larger gains in wealth than those with younger earners. In fact, according to Statistics Canada, the aggregate increase in Canadian wealth is, in large part, an outcome of the nation's aging population.[137] Wealth accumulation is directly related to aging both because older households generally have greater earning power and thus a greater capacity to accumulate assets, and because they have had a longer time span for assets to appreciate in value and to pay back any debts incurred.

The median net worth of households with income-earners between the ages of 45 and 64 years ranged from $232,000 to $407,000 in 2005.[138] However, while older households have seen their wealth increase, younger households have seen a real decline in wealth. For example, the median net worth of households with income earners 65 years of age and older increased by 27% between 1999 and 2005, while households with income-earners younger than 35 years of age actually saw their median net worth decline by 8% from nearly $20,500 in 1999 to just $18,800 in 2005. For every $1 of wealth owned by young households (earners aged <35) in 2005, their older counterparts (earners aged 65+) owned about $20.

The growing gap in wealth noted above means not only that poorer Canadians are losing ground to richer Canadians and poorer regions to richer ones, but also that younger Canadians are losing ground to older Canadians in terms of wealth, financial security, and prosperity.

In addition to age, other socioeconomic and demographic variables contribute to gaps in the distribution of Canada's net worth. For example, households that benefited from noticeable gains in net worth between 1999 and 2005 tended to be those with higher

[137] Morisette, René, and Xuelin Zhang. "Revisiting Wealth Inequality." *Perspectives on Labour and Income.* (Ottawa: Minister of Industry, 7 (12), catalogue no. 75-001-XIE, December 2006), page 8.
[138] Statistics Canada, Income Statistics Division. *Survey of Financial Security*. 2005.

educational levels as well as households with a larger number of earners (i.e., dual-earner households rather than single-earner households).[139]

The 2005 SFS did not have a sufficient sample size to provide a detailed breakdown of household wealth by socioeconomic characteristics at the provincial or regional levels. Please refer to GPI Atlantic's 2003 report on *Women's Health in Atlantic Canada: Volume I* for a detailed analysis and broader discussion of wealth distribution by socioeconomic status in the Atlantic region. That analysis, in turn, is based largely on the 1999 SFS and on Steve Kerstetter's analysis of special regional custom tabulations of the 1999 SFS results purchased by the Canadian Centre for Policy Alternatives.[140]

[139] Morisette, René, and Xuelin Zhang. "Revisiting Wealth Inequality." *Perspectives on Labour and Income.* (Ottawa: Minister of Industry, 7 (12), catalogue no. 75-001-XIE, December 2006), page 8.
[140] Colman, Ronald. *Women's Health in Atlantic Canada*. (Halifax: GPI Atlantic, 2003). Available at: www.gpiatlantic.org; Kerstetter, Steve. *Rags and Riches: Wealth Inequality in Canada.* (Toronto: Canadian Centre for Policy Alternatives, 2002).

7. Conclusion

Anecdotal stories of households encountering more difficulties making ends meet appear to be substantiated by results from the 2005 Statistics Canada Survey of Financial Security (SFS). Canadian household debt has reached unprecedented heights. The level of outstanding borrowings was three times larger in real terms in 2005 than in 1984. Nationally, debt grew faster than assets in the first half of the current decade, and much faster than income. This divergence has been most dramatic in poorer households.

As noted several times in this study, debt trends must be understood in the context of asset accumulation which, in absolute terms, has exceeded debt accumulation, thereby increasing aggregate wealth nationwide. Though time and resources only allowed a more detailed analysis of debt trends, types of debt, and the composition of debt holders for this study, future updates of this work should give equal attention to a detailed analysis of the level and types of assets held by Canadian households, the trends in asset growth, and the composition of asset holders. This is essential to provide a fuller portrait of Canadian households' balance sheets.

However, even at a rudimentary level, the distributional analysis provided here indicates that financial insecurity and distress among the poorest Canadians have grown even in a period of apparent prosperity, in which aggregate wealth has grown, and in which the gains of the rich have mushroomed. Thus, the 2005 SFS results show the wealth gap continuing to grow in Canada, with the richest 20% (fifth quintile) of households now owning 69.2% of the country's wealth, while the poorest *40%* own just 2.3% and the bottom *60%* (i.e., the clear majority if households) have 10.7%—down from 11.4% in 1999. In fact, the poorest 20% of Canadian households went deeper into debt during this period, and the magnitude of their *negative* wealth (excess of debts over assets) grew.

The evidence available from Statistics Canada's 1999 and 2005 Surveys of Financial Security and 1984 Assets and Debt Survey clearly indicates that the cause of financial insecurity in Canada has nothing to do with any inadequacy in aggregate national wealth. Canadians clearly have enormous wealth, and it is growing rapidly. In just two decades, the aggregate value of Canadians' wealth has more than tripled in real terms. The net worth of Canadian households totalled $4.9 trillion in 2005—42% higher than in 1999, and 245% higher than in 1984 (in constant 2005 dollars). In *aggregate dollar* values, there is not even a debt problem, since the growth in debt has been vastly outpaced, in absolute terms, by the expansion of assets.

And yet, even in a time of expanding prosperity, millions of Canadians suffer from severe financial stress and distress. Their financial insecurity is such that their debts increasingly exceed their assets; their income is inadequate to service their debt; they are sometimes reliant on usurious payday loans that only plunge them deeper into debt; they do not have the means to weather financial crises occasioned by job loss, sickness, death or disability of an earning partner, or other unexpected circumstances; they cannot deal with unforeseen and sudden cash requirements for car repair, home repair, medications, or other needs that demand urgent attention; and they may be unable to make bill payments when due. For example, a 2002 Statistics Canada analysis found that, among the poorest 20% (first quintle) of Canadian households, nearly one-third fell behind two months or more in a bill, loan, rent, or mortgage payment.[141]

The problem, then, is not any inadequacy of wealth, of which Canada has an abundance. It is the enormously unequal distribution of that wealth and its concentration in very few hands that has left large numbers of Canadians out in the cold. In this study, we have explored these distributional issues both at the horizontal (regional) level and at the vertical (quintile) level. Because the evidence points to these distributional issues as the key cause of financial insecurity in Canada, they are also the focus of this concluding summary chapter.

Households in Atlantic Canada experienced the fastest growth in debt in Canada during the six-year period between 1999 and 2005—the period between the two most recent Surveys of Financial Security. Indeed, the gap between debt growth (62%) and asset growth (35%) was larger in Atlantic Canada than in any other region. The region, therefore, now comprises a larger share of Canada's household debt than in 1999, while its share of national assets has declined. As a consequence, wealth continues to shift out of the region, maintaining a long-term trend in which Atlantic Canada has not shared fully in the increase in Canada's wealth. In 2005, Atlantic Canada accounted for 4.9% of the country's household wealth—down from 5.3% in 1999—even though it had 7.4% of the country's households.

The historically low interest rates of this decade have dramatically expanded access to credit for households. Households have relied on debt both to supplement income and finance current consumption on the one hand (which may potentially undermine longer-term financial security), and also to leverage asset acquisition and thus expand their financial security on the other hand. In particular, "cheap money," in terms of low borrowing costs and relative ease of access, has made it easier for many Canadians to enter the housing market and realize the dream of home ownership. Thus, mortgages continue to be by far the largest source of household debt, though lines of credit and other forms of consumer debt (like credit card debt) are expanding at a faster rate. The relative ease in borrowing money has, therefore, also afforded many households the opportunity to take trips, purchase the latest entertainment technology, and buy other items that would otherwise have been out of reach.

The varying uses and types of debt and their dramatic expansion in a period of low interest rates focus renewed attention on key questions related to financial security. For example, has the period of cheap money been used primarily to invest in assets that can build security or rather to encourage excess consumption to the potential peril of household finances, long-term security, environmental sustainability, and wellbeing? How liquid are the accumulated assets? Who are the debt holders, and to what extent are

[141] Pyper, Wendy. "Falling Behind." *Perspectives on Labour and Income*. (Statistics Canada, catalogue no. 75-001-XIE, July 2002), page 18.

they able to manage and service their debt loads effectively? What, in short, is the relationship between debt, assets, income, and financial security, and how does this relationship vary according to different household characteristics?

To approach these questions and to assess whether debt has generally enhanced or undermined financial security, this analysis has distinguished different debt types according to both their purposes and their carrying costs and terms, and it has examined the varying capacities of different groups of debt holders to service their debts.

Thus, some relatively low-interest loans, like mortgages and student loans, were seen to build long-term assets. However, even those worthy objectives can be compromised and financial security imperilled if the magnitude of debt is excessive in relation to the income, employment, assets, and other resources required to service and manage the debt. Some households have used high-interest credit card debt to support consumption beyond their means, while others have used short-term payday loans with huge carrying costs to pay bills and cover everyday expenses in ways that signify financial need, insecurity, and even desperation. In sum, types of debt were seen to vary widely in terms of purpose, use, and interest charges, and to have correspondingly varied impacts on financial security.

The financial security of Canadian households was seen to derive from the balance between their assets and their debts, which defines their wealth, rather than from the level of their material possessions. This financial security, in turn, contributes to wellbeing by serving as a buffer for households against unexpected income loss and spending requirements due to sickness, job layoff, death of a partner, or other circumstances. From this perspective, higher levels of debt are not necessarily a detriment to financial security provided that assets are growing at a faster rate, that they are sufficiently liquid to convert readily to cash at times of crisis, and that the capacity to service the debt is not imperilled by inadequate or declining real income. By contrast, a high debt burden relative to income and assets can compromise financial security, restrict economic flexibility, impede the attainment of personal and financial goals, and cause severe emotional stress.

The SFS results indicate that financial security remains elusive for many households. Between 1999 and 2005, the poorest 20% of Canadian households saw their debt loads increase by 51%—faster than for any other group, while their *negative* wealth (the degree to which debts exceeded assets) grew by more than 70% between 1999 and 2005. The debt burden of the poor is exacerbated by their frequent reliance on high cost debts (such as credit cards and payday loans). Thus, the evidence shows that, despite a decade of growing prosperity, millions of Canadians are experiencing increasing financial distress and insecurity.

In sharp contrast, the richest 20% of Canadian households saw their wealth increase in real terms by 43% from 1999 to a massive $3.4 trillion in 2005. In 2005, the richest 20% of households had 32.4 times the wealth of the poorest 40%, 6.6 times the wealth of the bottom 60%, and 2.3 times the wealth of the remaining 80% of households.

Poorer households tend to be younger and wealthier households older, since older Canadians have not only had time to accumulate assets and pay off debts but have also reached the peak of their earning power. Yet, young Canadians today are often saddled with unprecedented levels of student debt that will compromise their financial security and wellbeing for far longer than was the case for their parents. In other words, a life cycle analysis alone (indicating that wealth increases over the life cycle) is inadequate to explain why younger, poorer households are saddled with greater debt and expanding negative wealth compared to the same age cohort in previous generations.

Middle-wealth households are on a firmer financial footing than their poorer counterparts, since the collective value of their assets ($626 billion) substantially exceeds their debts ($217 billion). However, relative to the wealthiest households, middle-wealth households now hold a declining proportion of the country's overall wealth—down from 8.8% in 1999 to 8.4% in 2005. And a closer look at their holdings indicates that their financial security may be more tenuous than the aggregate wealth figures suggest, since it rests primarily on the narrow basis of their home equity, which is not very liquid and not easily converted to cash to meet unexpected expenses.

This middle-wealth (third) quintile holds a larger portion of Canada's household debt (29%) than any other quintile—with more than three-quarters of that debt tied up in mortgages on their own homes. In fact, this middle 20% of households accounts for more than one-third of all Canadian home mortgage debt. The increase in these households' wealth has been driven primarily by the appreciation in the value of their homes, which, as noted, are not easily sacrificed even at times of financial crisis. Removing the value of main homes reveals that the remaining wealth of these middle quintile households was actually 7% lower in 2005 than in 1999—indicating that more liquid forms of wealth may be declining for middle-wealth Canadians. In sum, while the aggregate evidence indicates clear losses in financial security for the poorest Canadians, it also does not show clear gains in financial security for those in the middle.

Wealthier households (fourth and fifth quintile) are relatively less reliant on their homes as a source of wealth, and generally much more financially secure. In fact, only 63% of the richest Canadian households hold any debt, compared to 78% of middle-wealth households. The richest Canadians also have a greater capacity to access low-interest loans, since they have the equity that banks and financial institutions seek. As noted, the 2005 SFS confirms that wealth in Canada is becoming increasingly concentrated, with the richest 20% of households now owning 69% of the country's wealth ($3.4 trillion)—or $32.40 for every $1 held by the poorest 40%. The increasing concentration of wealth among a smaller number of households—at the same time that poorer Canadians are going deeper into debt and financial distress—constitutes a potential risk to social stability and cohesion.

In this decade, Canada has seen strong economic growth, with businesses posting record profits, and governments stabilizing debt and deficits. Yet, the evidence examined shows that the country's rising wealth is concentrated in relatively few hands; that many households are not partaking in the boom; and that millions of Canadians are seeing their financial security eroded in a period of apparent prosperity. This trend has troubling economic and social implications.

From a macroeconomic perspective, increased indebtedness and erosion of financial security among large numbers of Canadians may engender a slowdown in consumer activity that would weaken Canadian economic activity, since consumer activity represents more than two-thirds of Canada's GDP. An economic downturn would, in turn, affect business prospects and employment, weaken government fiscal capacity, and thereby imperil the very tax-funded public programs and delivery of public services that currently ameliorate poverty and inequality and foster social cohesion.

While the GPI approach is generally critical of measures of progress based narrowly on economic growth statistics alone, it certainly recognizes the complex links between consumer spending, economic activity, employment, fiscal capacity, social programs, and economic security. Unlike conventional analyses, however, the GPI perspective also accounts for the health and social costs of financial insecurity, stress, and unemployment, and for the environmental impacts of consumption, and it recognizes that these links are not uni-dimensional and uni-directional.

Improvements in equity, for example, can have positive economic, social, health, environmental, and political impacts. This basic understanding is backed by a growing body of research demonstrating, for example, that greater income equality can enhance productivity and economic success.[142] But the understanding that sharp wealth and income inequities can have adverse social, economic, and political consequences is by no means new.

Since ancient times, for example, political analysts have observed that extreme inequities can undermine political stability and social cohesion. Nearly two-and-a-half thousand years ago, for example, Aristotle warned that "revolutions arise from inequalities" in which "one class is very rich, another very poor," leading to the rich becoming increasingly arrogant while the poor "covet the goods of the rich." Those who have too much wealth, he wrote, "are neither willing nor able to submit to authority…and can only rule despotically," while the poor are "ruled like slaves. Thus arises a city, not of freemen, but of masters and slaves, the one despising, the other envying; and nothing can be more fatal to friendship and good fellowship in states than this: . . . when men are at enmity with one another, they would rather not even share the same path."

By contrast, Aristotle wrote, the most secure, stable, cohesive, and harmonious state is one "composed, as far as possible, of equals and similars; and these are generally the middle classes." Thus, "moderation and the mean are best, and therefore it will clearly be

[142] See, for example, Savoie, Donald. *Rethinking Canada's Regional Development Policy.* (Canadian Institute for Research on Regional Development, 1997); Osberg, Lars. *Rethinking the Equity/Efficiency Tradeoff.* (Canadian Association of Business Economists (CABE) Journal, Spring 1995); Sharpe, Andrew. Opening Talk. *IRPP-CSLS Conference on the Linkages Between Economic Growth and Inequality.* (Ottawa, January 2001).

best to possess the gifts of fortune in moderation; for in that condition of life men are most ready to follow rational principle."[143]

Based on the evidence examined in this study, particularly from Statistics Canada's Surveys of Financial Security, it is apparent that "the gifts of fortune" are not currently shared "in moderation" in Canada. While the poorest 20% went deeper into debt and saw their debts exceed their assets by an even larger margin than before, the average wealth of the richest 20% rose to $1.26 million per household.

Based on the SFS results, it is reasonable to ask whether the divide between rich and poor in Canada has become too wide, whether current disparities potentially threaten social stability, and whether policy measures might reasonably be taken to narrow the gap, oblige some limits at the top, alleviate the growing financial distress and insecurity at the bottom, and otherwise redistribute some of this country's vast personal wealth.

In today's current political climate, such questions might sound "radical." Certainly they are not presently on the country's policy agenda, as the steady widening of the wealth gap in recent decades indicates. But Aristotle was no radical, and his principle concern about growing inequities was their threat to social stability, cohesion, and good governance. More recent evidence has pointed to the adverse (and costly) health consequences of poverty and financial stress, and to the very serious environmental consequences of excess consumption. Regardless of political persuasion, there are abundant reasons to begin to address Canada's vast and growing wealth gap and to enhance the financial security of those currently under stress.

But perhaps first—and as an essential prerequisite—some shift in values and priorities is clearly required, simply to bring the questions and issues onto the policy agenda. The good news is that the hard evidence from Statistics Canada's 1999 and 2005 Surveys of Financial Security, as outlined in this report, at last shines the spotlight on the stark realities of wealth inequality and financial security and insecurity in Canada. To that end, the first three policy recommendations below are aimed simply at a general re-direction of policy attention, focus, and priority onto some of the key issues raised in this analysis.

7.1. Recommendations

The following three general recommendations flow naturally and obviously from the evidence and analysis presented in the preceding six chapters, but they also constitute profound shifts in values, priorities, and perspectives:

1. Governments should shift some of their economic focus from encouraging current consumption to enhancing financial security. The conventional assumption that increased household spending and material consumption signify progress and a

[143] Aristotle. *The Politics.* Book Four. Ch. XI. Translated Benjamin Jowett. (Dover Thrift Editions, 2000).

healthy economy requires closer consideration and examination. There is an ever-growing body of evidence indicating that enhanced financial security contributes far more to wellbeing at the household level than ever-higher levels of aggregate spending, consumption, and material accumulation, particularly when a growing portion of that spending is financed by debt.

For example, a GPI Atlantic survey of more than 3,600 Nova Scotians in two communities found that respondents were nearly three times as likely to give high importance to financial security (76.3%) as to material wealth (27.4%) as a guiding life principle. This indicates that policies designed to enhance job security, ensure a living wage, ameliorate student debt loads, strengthen the social safety net, and ensure financial support in times of crisis or difficulty likely correspond far more closely to Nova Scotians' needs and values than policies and inducements that focus narrowly on encouraging more consumption and production.[144]

2. To enhance political stability and social cohesion in Canada, it is imperative that policy makers pay greater heed to redistributive issues and develop a practical agenda that addresses the current huge and growing gap in wealth distribution. To that end, it is essential to monitor far more regularly and consistently than at present both changes in the types of debt, assets, and wealth in Canada, and how those different forms of debt, assets, and wealth are distributed—regionally, by quintile, and by other sociodemographic characteristics.

   At the regional level, this will require a revisiting of the present constitutional and federal–provincial arrangements that have seen regional inequalities increase, with wealth continuing to shift out of Atlantic Canada. Provincial capacity to manage debt now varies so widely that one province (Alberta) has paid off its entire debt while another (Newfoundland and Labrador) has a debt-to-GDP ratio in excess of 60%. In 2005, Nova Scotia's net direct debt amounted to 39% of the value of the provincial GDP.[145] Whether reforms in equalization formulae can reverse the present trend towards greater regional wealth inequalities is uncertain, but a focus on provincial ownership of natural resources is likely to leave those provinces without such resources out in the cold.

   At the household level, too, it is essential to address the continuing shift of wealth out of Atlantic Canada, where the proportion of the country's household wealth is now less than two-thirds of what it would be if it were equitably distributed on a per capita basis—down from 72% as recently as 1999. No one imagines or advocates that wealth can or should be completely equally distributed, but there are good social,

[144] Pennock, Michael, Martha Pennock, and Ronald Colman. *A Tale of Two Communities: Observations on Some Results from the Glace Bay and Kings County GPI Surveys.* (Halifax: GPI Atlantic, May 2008). Available at: http://www.gpiatlantic.org/releases/pr_community.html [accessed June 22, 2008].
[145] Statistics Canada. CANSIM Table 384-0002 – Gross Domestic Product (GDP), expenditure-based, provincial economic accounts, annual; Department of Finance. *Fiscal Reference Table*s (Ottawa: Government of Canada, September 2006).

political, and economic grounds for reversing growing inequities both at the regional and socioeconomic levels.

Undoubtedly, the most difficult (yet probably most important) aspect of any redistributive agenda is the moderation of excesses at the top of the wealth spectrum. Even defining such "excess" will be hugely challenging. Is the current $1.26 million average household wealth of the top 20% of Canadian households "too much" or is it "reasonable?" And at what point is the enormous wealth of those at the very top (i.e., the top 5% and 1%)—which skews even the top 20% average upwards—too much? But, despite the challenge of definition, the question must at last be asked.

As Aristotle, suggests, the issue of "moderation" finally needs to find its way to the centre of the policy agenda. Certainly, in an era when the earth's natural resources are being rapidly depleted and when the natural environment can no longer absorb the wastes generated by our runaway economic activity, the question of "what is enough" has become so urgent that it can no longer be avoided. Indeed, from that perspective, the Canadian inequities in wealth distribution examined in this study are mirrored globally—with the world's wealthiest 20% consuming 80% of all resources, while millions more go hungry.

3. Federal and provincial policymakers must begin to address the growing financial distress of the poorest Canadians and Nova Scotians, whether from compassion or simple concern for social stability and cohesion. The 2005 riots in Paris, France, are a poignant reminder of the potential consequences of the marginalization of the poorest households.

   The good news is that it has already been proven that effective measures can be taken, and have been taken, to enhance the financial security of disadvantaged groups. In the late 1970s and early 1980s, systematic steps were taken to improve the financial security of Canadian seniors, with enhancements to programs like Old Age Security and the Guaranteed Income Supplement effectively halving low-income rates among seniors. If these results can be successfully accomplished for a demographic group as large as seniors, then financial security can also be enhanced for other presently disadvantaged and marginalized groups, including Aboriginal peoples, single parents, the unemployed, and youth (see below).

These three general recommendations require real political will and a far-reaching and genuine shift in perspective and priority. But in the meantime, there are some concrete and practical steps that governments can take to address some of the very specific issues raised in this analysis.

For example, the 2005 SFS evidence indicated that younger Canadians are seemingly missing out on the growth in national wealth that has occurred in the last decade, and are increasingly heavily indebted relative to their assets. While it is typical for young adults to incur debt in the early stages of their careers and as they establish households, and then to increase their assets and wealth, pay off their debts, and enhance their financial security later in life, this generation of young adults is considerably more saddled with debt than was their parents' generation. Student debt is a key reason.

- Governments need to develop systematic programs that ameliorate the often crushing burden of student debt and that facilitate graduates' repayment obligations and conditions, so that the financial burden upon graduation is eased, and so that the financial security and wellbeing of graduates are not compromised for years to come.

- From an equity perspective, governments should examine the implications of high tuition and education costs for access to post-secondary education. Because investment in Canada's human capital is essential for economic productivity and global competitiveness, moderating the rising cost of education should be a priority for governments even from the most conventional economic standpoint. For further discussion of student debt and tuition issues, please see GPI Atlantic's recently released report on education indicators.[146]

There are other simple and practical steps that provincial governments can take without delay to enhance financial security at the population level. The evidence in this study indicates that households have different levels of capacity and knowledge in managing their finances. Many households incur debt that is beyond their means to service effectively, and they try to manage their debt obligations and finances with limited resources and inadequate knowledge that can further undermine their financial security.

- Government agencies currently provide a range of services to businesses, at taxpayers' expense, to assist in business planning, budgeting, capital investment, and financial management processes. Policy makers should similarly provide such expert assistance, counselling, and financial advice to households to aid them in the management of their household finances, and to advise them on borrowing options, terms, conditions, and debt-servicing arrangements.

- Low-income households could particularly benefit from prudent but creative programs that expand their access to financing while offering latitude in the costs of borrowing. In the absence of such services, such households often avail themselves of extremely high-interest loans that may deepen their financial insecurity even while they attempt to weather financial crises.

  The increasing popularity of payday loans is evidence of a major gap in the services currently offered by financial institutions. Policy makers could begin to develop options to fill that gap in order to create alternatives to payday loans that carry usurious interest rates.

  Policy makers will also need to address the often very high costs of borrowing for low-income groups, and to regulate the lending practices of payday loan lenders. Recent amendments to the Nova Scotia Consumer Protection Act in November 2006,

[146] Hayward, Karen, et al.. *How Educated Are Nova Scotians? Education Indicators for the Nova Scotia Genuine Progress Index.* (Halifax: GPI Atlanti,. February 2008). Available at: www.gpiatlantic.org.

following federal government legislation allowing provinces to become more active in regulating payday lenders, and subsequent hearings in 2008 by the province's Utility and Review Board are important steps towards more effective regulation of this industry.[147]

As seen in this study, Statistics Canada's Survey of Financial Security (SFS) is an excellent resource on the financial security of Canadian households. However, because the 2005 SFS was only one-third the size of its 1999 predecessor, the very limited sample size could not provide detailed regional and provincial results, or adequate sociodemographic breakdowns of the data. These data gaps and insufficiencies have impeded the ability of researchers and policy makers to monitor and understand the nuances of the debt situation and financial security of households—particularly at the provincial level—and to draw the detailed conclusions necessary for policy purposes.

From a GPI perspective, financial security is a crucial ingredient of wellbeing. Yet, it is rarely assessed systematically, and data availability is severely constrained. Aside from the sample size limitations of the 2005 SFS mentioned above, it is noteworthy that the more detailed 1999 SFS was the first national survey of debt, assets, and wealth in Canada since 1984—a 15-year gap. By contrast, it should be recalled that Statistics Canada issues the GDP statistics *monthly*, and that regular GDP data are available provincially and in great detail. That stark contrast in data availability, frequency, quality, and detail not only reflect current policy priorities but make it very challenging to shift such priorities on the basis of real evidence.

It is highly unlikely that key equity and financial security issues will find their way to the centre of federal or provincial policy agendas, as recommended above, so long as data collection remains so sparse, sporadic, and inconsistent, and so long as the necessary evidence, therefore, remains hidden in the public and policy arenas. Judging by the 15-year gap between the 1984 Assets and Debt Survey and the 1999 SFS, and by the small sample size of the 2005 SFS, the equity and distributional issues revealed by these surveys clearly remain proportionately much less important to policy makers than the economic growth statistics issued monthly.

- Because household finances and financial security are so critical both to population and social wellbeing and to the health of the economy at large, it is a key recommendation of this report that more frequent comprehensive surveys of household debt and wealth be administered by Statistics Canada. Such surveys should take place at least once every three years with a sample size sufficient to provide detailed provincial results.

  If necessary, these additional and expanded financial security surveys can be financed by a reduction in the frequency of the very expensive GDP data collection process. Many industrialized countries produce GDP statistics far less frequently than Canada

[147] Service Nova Scotia and Municipal Relations. "Consumer Protection Act Amendments." (Bulletin 7, November 2006). Available at: http://www.gov.ns.ca/news/details.asp?id=20061107002 [accessed June 22, 2008].

and the United States, and (after considerable consultation, including with high-level Statistics Canada analysts) GPI Atlantic has been able to discern no good economic reasons for the present monthly releases, which distort rather than deepen the current policy focus.

On the contrary, it has been argued that less frequent publication of the GDP results would not only free resources for data collection in other key emerging areas but actually smooth out episodic and seasonal variations that have little real macroeconomic significance and that may send misleading short-term signals to policy-makers, economic analysts, and financial markets. In sum, improvements in data availability, frequency, detail, and quality, including larger SFS sample sizes, will play a crucial role in re-directing attention to the important financial security and distributional issues raised in this study.

Finally, we recommend, as a compliment to this study, a detailed analysis of the level of assets of Canadian households, the trends in asset growth, and the composition of asset holders. Such an analysis will provide a rich picture of Canadian households' balance sheets.

Appendix A: Household Debt Data Sources

The household debt, asset, and wealth data used in this study are derived from several sources. Accordingly, the measurements of debt, assets, and wealth referenced in this report differ by source. Despite these differences, the data sources illustrate similar trends in household debt.

The main data source used in this study, which provides the most comprehensive portrait of household debt in Canada, is Statistics Canada's Survey of Financial Security (SFS). Statistics Canada has conducted two instalments of the SFS, in 1999 and, most recently, in 2005. In 1984, Statistics Canada conducted the Assets and Debt Survey (ADS), which was a supplement to the Survey of Consumer Finances.

This report is based primarily on data from the 1999 and the 2005 SFS. The 2005 SFS is the most up-to-date analysis of Canadian household finances, with unpublished results kindly provided to GPI Atlantic by Statistics Canada's Income Statistics Division. However, the sample size in 2005 was only one-third the sample size in the 1999 survey. Consequently, data quality at the regional level in the 2005 SFS is much less reliable, and assessments by province and by detailed household characteristics at the regional level are not presently possible.

Because of its larger sample size, the 1999 SFS still provides the most comprehensive assessment and breakdown of the debts, assets, and net worth of Canadians to date. The 1999 SFS was also more comprehensive than the 1984 ADS because it included estimates of the value of employer pension plans—an important component of assets that was not included in the 1984 survey.

Estimates of the debt, asset, and wealth levels from the 1984, 1999, and 2005 surveys have been adjusted by Statistics Canada, Income Division and GPI Atlantic to allow for comparative analysis.

The Canadian Centre for Policy Alternatives (CCPA) released a study in 2002 that, for the first time, revealed the wealth gaps in Canada by region and by household characteristics, and that provided an assessment of the financial status of different household types based on customized regional data runs from the 1999 SFS. Results from this publication (titled *Rags and Riches: Wealth Inequality in Canada*, by Steve Kerstetter, CCPA, Ottawa and Vancouver, December 2002) have been referenced in some detail in previous GPI Atlantic studies, including *Women's Health in Canada* and *Women's Health in Atlantic Canada*, which can both be downloaded from the GPI Atlantic website at www.gpiatlantic.org.

A1. Other Sources of Household Debt Data: Annual Statistics

The comprehensiveness of the SFS provides major analytical advantages, but the survey's depth in terms of detail is offset by the infrequency with which these surveys are conducted. There are several other sources of financial data that offer information about Canadian household debt on an annual basis, but they do not include the regional or socioeconomic details and characteristics provided by the SFS and ADS.

Statistics Canada's National Balance Sheet Accounts (NBSA) provides annual estimates of Canadian assets and liabilities for four major sectors of the national economy: persons and unincorporated businesses, corporations, governments, and non-residents.[148] The liabilities of persons and unincorporated businesses may be taken as a proxy for debt in the household sector. The major components of liabilities in the NBSA are consumer credit, bank loans, mortgages, and other liabilities. The NBSA are useful for tracking aggregate annual trends in household debt for Canada as a whole, but, as noted, they lack regional details as well as assessments by household characteristics.

The Bank of Canada's regular publication, *Weekly Financial Statistics*, is another informative source that tracks the consumer credit and residential mortgage credit provided by major private financial institutions on an annual basis. These data can be accessed on the Bank of Canada's website or through Statistics Canada's CANSIM tables.[149]

As well, the Canada Mortgage and Housing Corporation's annual publication, *Canadian Housing Observer*, contains time series information on the value of outstanding residential mortgages. Provincial details are available through this data source.[150] A range of other subsidiary sources is also referenced in the footnotes to the previous six chapters.

[148] For information on definitions, concepts, sources, and methods used in the National Balance Sheet Accounts, please refer to Statistics Canada: *About the Financial and Wealth Accounts*. Available at: http://www.statcan.ca/english/nea-cen/about/fin.htm; and *A User Guide to the Canadian System of National Accounts*. Available at: http://www.statcan.ca/english/nea-cen/pub/guide/index.htm.
[149] Bank of Canada Financial Statistics can be accessed at http://www.bank-banque-canada.ca/en/wfsgen.html. Relevant Statistics Canada CANSIM tables reporting these data include: 176-0011, 176-0069, and 176-0045. Available at: http://cansim2.statcan.ca/.
[150] The Canada Mortgage and Housing Corporation's annual publication *Canadian Housing Observer* is available at http://www.cmhc-schl.gc.ca/en/corp/about/cahoob/cahoob_001.cfm [accessed July 15, 2007].

Appendix B: Provincial Government and Business Debt and Asset Management

B1. Introduction: Context of this Appendix

This Appendix was originally prepared as the seventh chapter of this report. However, several constraints did not allow GPI Atlantic researchers time for in-depth adequate analysis of these two highly complex subjects. Nonetheless, to acknowledge the importance of these dimensions of debt and assets and to point to the need for a more comprehensive treatment of these subjects in future updates of this work, government and business debt are discussed as an appendix to the report.

Above all, we felt the need at least to reference these subjects in passing, as they are important indicators of progress that have a significant place in a Genuine Progress Index. For example, from a sustainability perspective, which is a defining feature of the GPI, the capacity to manage government debt and assets effectively and to use public borrowing wisely to invest in essential infrastructure has a direct impact on the wellbeing of future generations. Just as with private households, the prudent public use of loans to build useful assets can serve the long-term public interest and enhance the wellbeing of future generations.

Conversely, a long history of accumulating deficits and a resultant deepening debt burden, as occurred throughout much of the 1980s and 1990s in Nova Scotia, have put such a strain on government finances that debt-servicing obligations have imperilled the capacity of governments to provide adequate educational, health, and other services to the public and to invest in essential infrastructure. To cite just one example, fiscal restraint in the last decade in efforts to avoid further deficits, meet debt-servicing obligations, and finally balance the budget, has led to a steady decline in the publicly funded portion of university operating expenses, which, in turn, has led to a sharp rise in student tuition, and much heavier consequent student debt burdens that have undermined the financial security of large numbers of graduates.

In sum, poor management of government debt has a direct and adverse impact on the financial security of citizens and on the wellbeing of future generations that may suffer from reduced services and decaying infrastructure as governments struggle to meet massive debt-servicing charges. Similarly, business bankruptcies threaten jobs and also undermine the financial security of households. For these reasons and more, the government and business dimensions of debt and asset management are intimately related to household financial security.

Here, we make no pretence that the two subjects of government and business debt and asset management are dealt with adequately, in depth, or with any degree of explanatory analysis in this appendix. However, the following pages are offered here simply as a way of pointing towards some of the key dimensions that are needed in the future development of this important GPI domain.

Even from a simple technical perspective, much remains to be done in the description that follows. First, for example, the analysis of trends in household debt, assets, and wealth throughout this report has been presented in constant 2005 dollars so that comparisons could be made in real terms and change over time properly assessed. However, the numbers that follow are in current (not constant) dollars, and so do not provide a meaningful assessment of trends. Again, time and resources did not permit the necessary adjustments to be made for the purposes of this report, but the conversion to constant dollars should definitely be made when the government and business debt and asset management section is fully and properly incorporated into the report itself.

Secondly, the "federal net debt" numbers cited below have mistakenly used the "accumulated deficit" figures from the Federal Department of Finance's *Fiscal Reference Tables* rather than the "net debt" figures that should have been used and that are, of course, somewhat higher. Thus, in Figure A below, for example, the federal numbers should range from 212 to 537, not from 194 to 481 as indicated. Thus, the federal net debt numbers tend to be understated in this section by about 9–12%. Again, time and resources did not permit the correction to be made throughout this section, and this must be done when this chapter is properly incorporated into future updates of this report.

Thirdly, effective debt management at the governmental level cannot be considered in isolation from other key government responsibilities, including provision of essential public services. To take just one example, the federal government's success in producing budget surpluses and steadily paying down its debt since 1996 is largely due to massive cuts in federal health, social, and education transfers to the provinces in the 1990s, forcing cuts to the provision of these services and increasing financial pressures at the provincial level.

A key criterion for an effective "indicator" is its ability to demonstrate "progress," and thus, to identify clearly whether an increase or decrease signifies a positive or negative trend. But in this particular case, does the federal government's improved debt management capacity signify genuine progress? Despite the accolades of credit rating agencies, the answer from a provincial perspective is a resounding "no." This demonstrates how challenging and difficult it is to produce effective and reliable indicators of fiscal responsibility and effective debt management at the governmental level.

Fourthly, there are conceptual and technical differences between terms like "net debt" and "net direct debt" and between accrual accounting and cash-based measures of government debt that require further investigation and explanation, and there are places where adjustments are required to particular data sets to ensure their consistency and comparability with other data sets. For these and other reasons, we do not consider this chapter ready for incorporation into the report itself, and we have, therefore, confined this section to an appendix for the purpose of pointing to the need for considerable further work in the areas of government and business debt and asset management.

Even more fundamentally, from a conceptual perspective, it is important in this section to ensure consistency with the balance sheet approach we have taken to household debt—considering debt obligations in the context of assets and of resultant wealth (assets minus debts). Yet, this balance sheet approach is often (even generally) forgotten in analysing government debt in particular. Too often in the last decade, a single-minded obsession with reducing debt (not an unworthy goal in itself) has failed to consider how different forms of debt have been used, for what purposes, at what cost, and the degree to which they have or have not built long-lasting assets with the potential to yield substantial rates of return and provide long-term benefits.

Just as with the analysis of household wealth, government and business debt may be prudently and wisely used at low interest charges to build assets and create worthwhile investments in the public interest, or it may be incurred to finance current consumption and pay bills. In the former case, debt may enhance wealth and benefit future generations of Nova Scotians. In the latter case, it may well deepen financial troubles, undermine long-term security, and compromise the capacity of governments to provide essential services in the future. A full and proper analysis of government debt must, therefore, be no less assiduous in distinguishing and classifying types of debt than indicated in the chapters on household debt. Again, time and resource constraints did not allow such analysis here.

These introductory paragraphs give some indication as to why—after careful consideration—this chapter was dropped from the report. The paragraphs that follow should, at best, be considered a very preliminary effort to point towards work that is still required. On request, GPI Atlantic would be pleased to supply to any researcher or analyst willing to take this work further our own internal review and comments on the paragraphs that follow.

B2. Impact of Government and Business Debt Management on Household Finances

The central focus of this report has been to assess the debt burden directly borne by Canadian and Atlantic Canadian households and—to the extent possible—to examine the implications of this debt for the financial security and, therefore, wellbeing of Canadians. Among other things, this has involved an exploration of:

- different sources of household debt (along with their differential carrying costs and diverse uses for asset accumulation or current consumption)
- characteristics of debt holders
- capacity of households to manage their debt in the context of their income, assets, and wealth

- distribution of debt, assets, and wealth in Canada

As noted in several places, future report updates should add at least a similar level of detail on types of household assets, characteristics of asset holders, and management of household assets as this report contains on household debt. In the meantime, this appendix, too, focuses on debt—albeit at the government and business levels—and will also eventually require the addition of similar materials on assets and asset management at the government and business levels.

Although the examination of debt in this report has been at the household level, the amounts of money that households borrow, their sources of borrowing, and their capacity to service their debt effectively, as well as their incomes and spending habits (which also affect debt patterns), are all influenced not only by their own household socioeconomic and demographic characteristics but also by external factors such as the state of the economy, government policies, and the business environment. For example, these external factors affect interest rates, which, in turn, directly affect borrowing habits and capacity to manage debt.

For these reasons, it is essential, at least briefly, to expand the analysis from households to government and businesses. Debt, after all, is incurred not only by households but also by governments and businesses, whose policies and practices impact financial security at the household level. This appendix, therefore, takes this wider approach in order to analyse briefly the trends in Nova Scotia's provincial government debt and in business bankruptcies (which constitute a form of incapacity by businesses to manage debt.)

Provincial and business debts have both direct and indirect impacts on household finances. Business bankruptcies can produce job layoffs, while high levels of government debt can constrain government expenditures, investment, and the provision of public services and social programs, as governments reallocate resources to servicing the debt. In order to increase provincial revenues, governments may also levy or increase user fees on services previously covered by general tax revenues—thereby producing increased charges to households.

Businesses may incur debt to finance business growth, build assets, or cover receivables. In order to supplement working capital, they may issue bonds or borrow from financial institutions. As with households, debt may be used positively towards investing in assets and expanding operational capacity, or debt may be incurred to bridge a gap between current cash flow and payment of receivables that are due. Indeed, poor financial management has been identified as one of the key causes of business bankruptcies.[151] Business failures, which can be triggered by inability to service debt, can reduce the pool of companies providing a particular product or service, which, in turn, can adversely impact supply and raise prices across a particular economic sector.

[151] Office of the Superintendent of Bankruptcy. *Business Insolvency in Canada: A National and Regional Analysis for the Period 1987–2005.* (Ottawa: Industry Canada, 2006).

B3. Nova Scotia Provincial Debt

Governments borrow to invest in assets such as roads, hospitals, schools, and other infrastructure. Governments also borrow to finance budgetary shortfalls when the cost of providing and administering public services exceeds revenue. While households may or may not set and follow a budget, the province delivers budgets annually, outlining to taxpayers spending plans and projected revenues for the year. When annual revenues exceed expenditure levels, the budget is in a surplus position. A deficit occurs when revenues fall below expenditures. Accumulated deficits constitute the primary source of government debt, with the financing of capital assets making up the rest.

The net direct debt of Nova Scotia's provincial government at the end of the 2005 fiscal year (2005–2006) was approximately $12.3 billion (Figure A below).[152] The net direct debt is the difference between the province's liabilities and its financial assets, and it represents the amount of liabilities that must be funded from future revenues and taxation.[153] The net direct provincial debt is an accrual accounting concept that differs from the concept of net debt, which is a cash-based measure and represents the total amount owed to bondholders.[154] The level of the net direct provincial debt fluctuates annually depending on the level of provincial surplus or deficit and the capital amortization expensed in the fiscal year. Provincial fiscal management that reduces provincial capital spending or program expenditure can reduce the net direct debt, while increases in either capital or program spending can increase the debt. The historical figures for net direct debt also capture the debt of crown corporations like Sydney Steel (Sysco) (until its sale in 2000) and Nova Scotia Resources Limited (until its sale in 2003).[155]

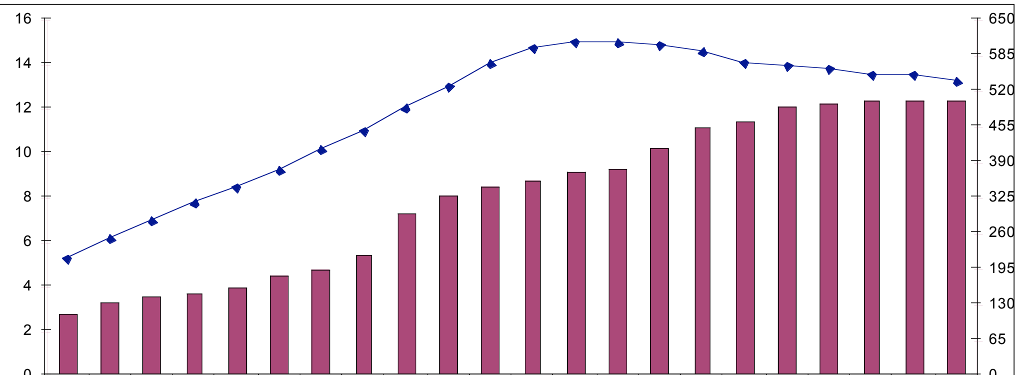
In absolute terms, Nova Scotia's provincial debt is the fourth highest amongst Canadian provinces, after Ontario, Quebec, and British Columbia,[156] even though the province only has the seventh largest economy in terms of GDP. In current (not real or constant) dollars, and as presented in the Government of Canada's *Fiscal Reference Tables*, the province's net direct debt grew by an average of 10% annually throughout the second half of the 1980s and during the 1990s, and more than quadrupled between 1984 and

[152] Government of Canada, Department of Finance. *Fiscal Reference Table*s. (Ottawa: Government of Canada, September 2006). The federal Department of Finance's *Fiscal Reference Tables* is an inventory of key provincial public finance indicators.
[153] Province of Nova Scotia, Department of Finance. *Public Accounts for the Fiscal Year Ended March 31, 2006, Volume I – Financial Statements.* (Halifax: Province of Nova Scotia, 2006), page 16. Available at: http://www.gov.ns.ca/fina/publish/paccts/06vol1.pdf [accessed August 5, 2007].
[154] Province of Nova Scotia, Department of Finance. *Debt Reduction Plan 2005: Debt Reduction and the Offshore Offset Agreement.* (Halifax: Province of Nova Scotia, 2005), page 6. Available at: http://www.gov.ns.ca/finance/docs/DebtReductionPlan2005.pdf [accessed August 30, 2007].
[155] Nova Scotia Resources Limited was a provincial crown corporation involved in oil and gas exploration, including holdings in Alberta. Its sale was finalized in 2003. The Province assumed control of Sysco (Sydney Steel Corporation) in 1967 until its closure and sale in 2000.
[156] Data from provincial public accounts as cited in Government of Canada, Department of Finance. *Fiscal Reference Table*s. (Ottawa: Government of Canada, September 2006); Statistics Canada. *CANSIM Table 385-0014 – Balance Sheet of Federal, Provincial and Territorial General and Local Government, Annual.*

2001, at which time debt growth began to slow.[157] Since 2003, the Nova Scotia provincial debt has remained stable at $12.3 billion (Figure A below). The largest source of the provincial debt is the accumulation of past budgetary shortfalls. For example, in 2000, 76% of Nova Scotia's net direct debt was from the accumulation of deficits, with the remaining 24% from the financing of capital assets.[158]

As indicated in Figure A below, Canada's net debt escalated dramatically in the second half of the 1980s and first half of the 1990s. Since 1996, however, the federal debt has steadily declined, and in 2005 was 12% lower (in current dollars) than in 1996. As noted, however, federal successes not only in balancing budgets but also in posting substantial budget surpluses and paying down debt are directly related to massive cuts in federal health, education, and social transfers to the provinces in the 1990s. In other words, improved financial health at the federal level—at least from the perspective of debt management and balanced budgets—came largely at the expense of service cuts at the provincial level and more challenging and precarious financial conditions for many provinces.

Appendix Figure A. Nova Scotia Provincial Debt and Federal Debt (Billions, current $), 1984−2005



	'84	'85	'86	'87	'88	'89	'90	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05
NS	2.75	3.24	3.50	3.76	3.95	4.45	4.73	5.43	7.29	8.12	8.51	8.72	9.14	9.29	10.30	11.23	11.37	12.14	12.23	12.33	12.31	12.32
CA (right-axis)	213	249	282	313	344	375	411	446	487	528	567	599	609	607	603	590	572	565	560	551	550	537

Notes: Nova Scotia's "Net Debt" used in the Fiscal Reference Tables corresponds with "net direct debt" as used in the Province's Public Accounts (Volume 1). The Nova Scotia debt is the provincial net direct debt and the federal debt is the net debt. Years listed actually refer to fiscal years. Thus, 1984 above actually represents the 1984–1985 fiscal year, and 2005 represents the 2005–2006 fiscal year.

Source: Government of Canada, Department of Finance. *Fiscal Reference Tables*. (Ottawa: Government of Canada, September 2006). Table 15, page 23, and Table 19, page 28. Available at: http://www.fin.gc.ca/toce/2006/frt06_e.html [accessed September 18, 2007].

[157] Note that years listed in the text actually refer to fiscal years. Thus, 1984 actually represents the 1984–1985 fiscal year, and 2001 represents the 2001–2002 fiscal year.

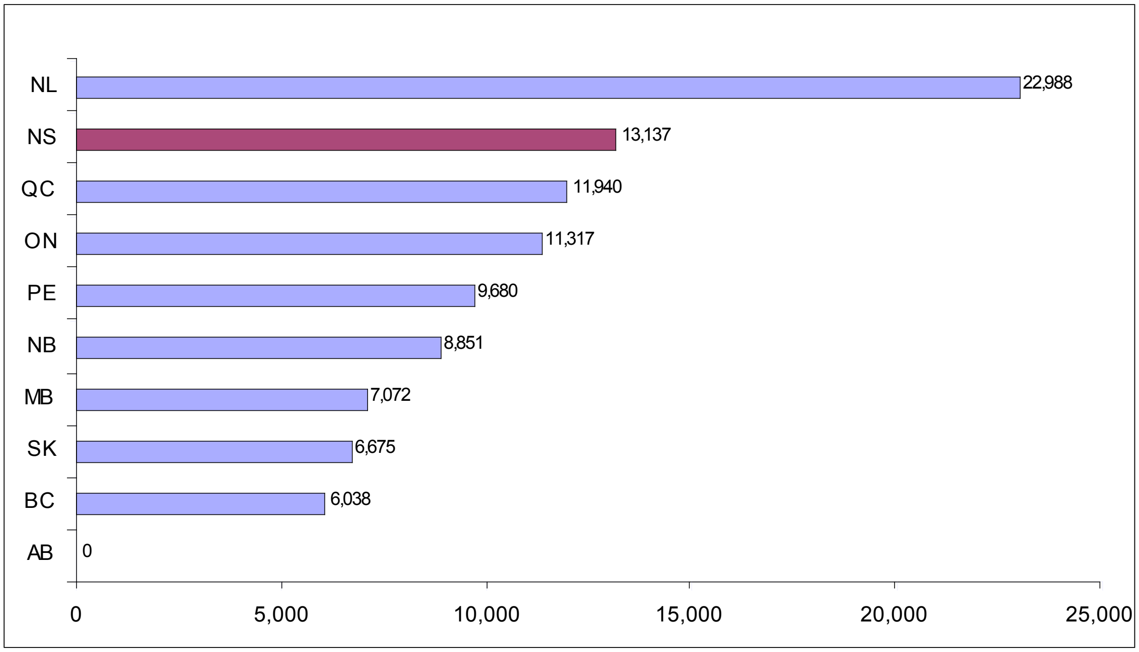
[158] Province of Nova Scotia, Department of Finance. *A Balanced Approach to Surplus and Debt Management.* (Halifax: Province of Nova Scotia, 2003), page 5. Available at: http://www.gov.ns.ca/finance/pdf/debtmanagement.pdf [accessed August 31, 2007].

When compared to other provinces, Nova Scotia ranks in the middle of the pack in terms of its ability to stabilize its debt in the current decade.[159] Alberta is the only province that has completely paid off its debt, due primarily to windfall revenues from its energy resources. New Brunswick and Saskatchewan have chipped away at their debt since 2000, while Ontario, Quebec, and Nova Scotia have contained growth in their debt levels to an average of less than 2% a year from fiscal years 2000 to 2005 (in current dollars). Growth in the debt levels of the other provinces (in current dollars) has averaged 4% to 7% annually, and in the case of New Brunswick and Saskatchewan, debt has on average declined by 1%.[160]

In 2005, Newfoundland and Labrador had the highest level of debt per capita among the provinces ($22,988 per person), followed by Nova Scotia ($13,137 per person).[161] Nova Scotia's debt per capita has fluctuated around this mark since 2001 but remains 40% higher than it was a decade earlier. In the other provinces (with the exception of Alberta, which does not have a provincial debt), levels of per capita debt range from $6,000 in British Columbia to nearly $12,000 in Quebec (Figure B below).

[159] Finances of the ten Canadian provinces as posted by Government of Canada, Department of Finance. *Fiscal Reference Table*s. (Ottawa: Government of Canada, September 2006).
[160] Using the Government of Canada's *Fiscal Reference Tables,* all these rates of increase reflect current dollar rather than constant dollar changes.
[161] Population data from Statistics Canada. *CANSIM Table 051-0001 – Estimates of Population by Age Group and Sex for July 1, Canada, Provinces and Territories, Annual*; Government financial data from Government of Canada, Department of Finance. *Fiscal Reference Table*s. (Ottawa: Government of Canada, September 2006).

Appendix Figure B. Debt per Capita (2005 Dollars), by Province, 2005–2006



Sources: Population data from Statistics Canada. *CANSIM Table 051-0001 – Estimates of Population by Age Group and Sex for July 1, Canada, Provinces and Territories, Annual;* Government financial data from Government of Canada, Department of Finance. *Fiscal Reference Table*s. (Ottawa: Government of Canada, September 2006). Available at: http://www.fin.gc.ca/toce/2006/frt06_e.html [accessed August 18, 2007]. Per capita calculation by GPI Atlantic.

The federal government's net debt amounted to $16,600 per person in 2005. Unlike most provinces, however, the federal debt has been on a steady decline since 1996. After nearly tripling its debt load between 1984 and 1996 (in current dollars), the federal government has steadily reduced its net debt since that time. In 2005, as noted above, its outstanding debt was 12% lower than in 1996. Since 2000, the federal government's net debt level has declined by an average of 1.2% annually (Figure A above).[162]

Also as noted above, this federal debt reduction was achieved in large part by massive federal reductions in transfer payments to the provinces during the 1990s. The provinces have generally not been able to match the federal government's debt reduction record, in large part because of spending pressures to provide health, education, and social services with reduced federal transfer payments.

[162] Note that years listed in the text actually refer to fiscal years. Thus, 2005 represents the 2005–2006 fiscal year. Using the Government of Canada's *Fiscal Reference Tables,* all these rates of decrease reflect current dollar rather than constant dollar changes.

B3.1 Capacity to Manage Provincial Debt

Nova Scotia's provincial debt must be considered in the context of the province's ability to manage its fiscal responsibilities and revenue-generating capacity. The performance and size of the provincial economy; the magnitude of federal transfers; and the provincial government's own priorities, policies, and tax regime, as well as the efficiency and effectiveness of service delivery, all directly affect the province's ability to generate revenue, deliver services, service its borrowings, and use debt constructively to build valued assets and invest in sustainable infrastructure that will benefit future generations.

For example, a lacklustre economy can cause personal and corporate income to decline, which in turn reduces the revenue the province collects through taxation. In addition, a weak economy may require increased government spending and investment to aid industries, stimulate the economy, and provide and maintain services, including social service payments to those without adequate means of support. Increases in the provincial debt level, therefore, may reflect government borrowing to make up for revenue shortfalls and / or to finance spending needs, while debt reduction is made more possible by effective revenue generation and control of expenditures.

Throughout much of the 1980s and 1990s, the rate of increase in Nova Scotia's provincial debt was faster than the growth in provincial government revenues and program expenditures.[163] By contrast, so far in this decade, the provincial debt has grown very modestly—by an average of less than 2% annually from 2000 to 2005 in current dollars—and, for the first time in two decades, even declined marginally in the 2004 and 2005 fiscal years.[164] Since 2001, Nova Scotia's debt has essentially stabilized—growing by just 0.7% in 2002 and 0.8% in 2003, declining by 0.2% in 2004 and 0.5% in 2005, and then increasing by 1% in 2006.[165]

In the current decade (between 2000 and 2005), government revenues and program expenditures increased by an average of 5.7% and 6.4% annually, respectively (current dollars). Since 2000, the provincial government has posted modest surpluses in each year, in sharp contrast to the annual deficits of the 1980s and 1990s.[166] When the provincial debt is considered in the context of revenues and expenditures, therefore, the province's capacity to manage debt has seemingly improved in recent years, and Nova Scotia's

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[163] Government of Canada, Department of Finance. *Fiscal Reference Tables*. (Ottawa: Government of Canada, September 2006).

[164] Note that years listed in the text actually refer to fiscal years. Thus, 2005 represents the 2005–2006 fiscal year.

[165] Government of Canada, Department of Finance. *Fiscal Reference Tables*. (Ottawa: Government of Canada, September 2007), Table 19, page 28. Available at: http://www.fin.gc.ca/frt/2007/frt07_e.pdf [accessed June 25, 2008]. Please note that at the time this section was originally prepared as an intended chapter in the report, the latest available *Fiscal Reference Tables* were those for 2006, ending with the 2005–2006 fiscal year: Government of Canada, Department of Finance. *Fiscal Reference Tables*. (Ottawa: Government of Canada, September 2006), Table 19, page 28. Available at: http://www.fin.gc.ca/toce/2006/frt06_e.html [accessed September 18, 2007].

[166] Government of Canada, Department of Finance. *Fiscal Reference Tables*. (Ottawa: Government of Canada, September 2007), Table 19, page 28. Available at: http://www.fin.gc.ca/frt/2007/frt07_e.pdf [accessed June 25, 2008].

provincial treasury is in better fiscal shape than in the previous two decades, which were characterized by annual deficits and a rapidly accumulating debt.

In current dollars, Nova Scotia provincial revenues increased from $5.1 billion in 2000 to $6.7 billion in 2005, an increase of 32%.[167] This increase can be largely attributed to increased income tax revenues (underpinned by higher employment rates and earnings in the province) and to revenues generated by the offshore energy industry.[168] Income taxes (personal and corporate) and sales taxes account for 44–45% of Nova Scotia's total revenue base.[169] Despite the importance of income taxes as a major source of revenue, Nova Scotia's Finance Department notes that the provincial tax base is at a disadvantage relative to other regions of the country:

> The majority of Nova Scotia tax filers do not have the income levels of their counterparts in other regions. Roughly two-thirds of Nova Scotia tax filers earn less than $30,000 a year, and the top 8% of Nova Scotia taxpayers carry over 49% of the personal income tax burden.[170]

Other key revenue sources for the province include federal government transfers, which accounted for 32% of total provincial revenues in 2005. Revenues related to Nova Scotia's offshore energy activities (e.g., income taxes from companies involved in energy production and exploration, royalty revenues tied to gas production, and exploration licenses) form another source of provincial revenue. Offshore royalties, for example, totalled $124 million in the 2005 fiscal year.[171] The province estimates that offshore revenues will likely decline in the second half of this decade as Nova Scotia's offshore activities temper. [172] While total provincial revenues have grown steadily so far this decade, the provincial government predicts that the pace of revenue growth in recent years is unlikely to continue in the short-to-medium term.[173]

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[167] Ibid.

[168] Province of Nova Scotia, Department of Finance. *Fiscal Overview 2007.* (Halifax: Province of Nova Scotia, 2007), page 8.

[169] Province of Nova Scotia, Department of Finance. *Fiscal Overview 2006.* (Halifax: Province of Nova Scotia, 2006); Province of Nova Scotia, Department of Finance. *Fiscal Overview 200.7* (Halifax: Province of Nova Scotia, 2007).

[170] Province of Nova Scotia, Department of Finance. *Fiscal Overview 2007.* (Halifax: Province of Nova Scotia, 2007), page 12.

[171] Province of Nova Scotia, Department of Finance. *Public Accounts for the Fiscal Year Ended March 31, 2006, Volume I – Financial Statements.* (Halifax: Province of Nova Scotia, 2006), page 25. Available at: http://www.gov.ns.ca/fina/publish/paccts/06vol1.pdf [accessed August 5, 2007]. Note that the percentage of federal government transfers as a portion of total provincial revenues reported by the province and referenced here (32%) differs from that reported in the federal government's *Fiscal Reference Tables,* which show federal cash transfers comprising 36% of total provincial revenues. Further investigation is required to explain the reasons for the disparity and to compare definitions and components of total revenues used in each source.

[172] In recent years, Nova Scotia's offshore sector has experienced limited exploration activity, the maturation of the Sable natural gas project, and a lack of new natural gas projects on the immediate horizon (though the Deep Panuke project is slated to begin production early in the next decade).

[173] Province of Nova Scotia, Department of Finance. *Fiscal Overview 2007.* (Halifax: Province of Nova Scotia, 2007), page 14.

Total program expenditure rose by an average of 6.4% per year between fiscal years 2000 and 2005, a rate that was somewhat above the average annual growth in provincial revenues (5.7%).[174] In 2005, growth in program spending exceeded revenue growth because of spending pressures in the areas of health, social services, education, and transportation. Health, social services, and education are the three largest areas of expenditure for the province. From 2000 to 2005, annual average spending growth in these three areas ranged from 2% (social services) to 5% (health) to 6.3% (education).[175] According to the Nova Scotia Finance Department's 2007 Fiscal Overview:

> Health care has been the fastest growing segment of the budget, averaging annual increases of 7.9 per cent since 1996–1997, almost 3 per cent higher than average revenue growth. Health expenses have increased by more than $600 million since 2003–2004 alone and have more than doubled in the last decade from $1.318 billion in 1996–1997. For 2006–2007, health care expenses are estimated at $2.793 billion. This is…46.4% of net program expenses.[176]

From 1998 to 2004, the province spent more than $1 billion annually to service its debt.[177] These debt charges fell to $988 million in 2005, and fell further to $930 million in 2006.[178] Servicing the debt accounted for 14.2% of total provincial government expenditures in 2005 and 12.4% of expenditures in 2006—a significant decline (and therefore improvement) from more than 20% in 2000. Debt-servicing costs declined by an annual average of 2% in the first half of this decade, based on current dollars. In 2005, the province's ratio of debt-servicing cost to total expenditure was at its lowest level since 1990, and in 2006 had dropped even further to its lowest level in more than two decades.

After a sharp 10% drop in fiscal year 2002, debt-servicing costs have continued to decline marginally each year since then, due in part to the lower interest rates prevailing in major financial markets and in part to the improvement in Nova Scotia's credit rating, which has allowed the province to borrow money at lower interest rates.[179] The estimated cost of servicing the debt 2007 is expected to decline further, while the $830 million federal payment resulting from the 2005 Atlantic Accord deal will be applied directly to the debt, thereby further improving the provincial treasury's fiscal situation.

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[174] Government of Canada, Department of Finance. *Fiscal Reference Tables*. (Ottawa: Government of Canada, September 2006).
[175] Statistics Canada. *CANSIM Table 385-0001 – Financial Management System.*
[176] Province of Nova Scotia, Department of Finance. *Fiscal Overview 2007* (Halifax: Province of Nova Scotia, 2007), page 16. Available at: http://www.gov.ns.ca/finance/docs/fis.caloverview2007.pdf [accessed June 25, 2008].
[177] Note that years listed in the text actually refer to fiscal years. Thus, 1998 actually represents the 1998–1999 fiscal year and 2004 represents the 2004–2005 fiscal year.
[178] Data in this section are from Government of Canada. Department of Finance. *Fiscal Reference Table*s. (Ottawa: Government of Canada, September 2007).
[179] Province of Nova Scotia, Department of Finance. "Nova Scotia Budget Assumptions and Schedules for the Fiscal Year 2007–2008." *Budget 2007*. (Halifax: Province of Nova Scotia, 2007).

Despite inroads made by the province to stabilize its net direct debt and to reduce its debt-servicing costs, Nova Scotia devoted a larger proportion of the revenue it generated itself to debt servicing in 2005 than any other province. In 2005, for every $100 in own-source revenues that Nova Scotia generated—i.e. excluding transfers from federal sources—approximately $24 was directed to servicing the debt, compared to $16 in Prince Edward Island and $15 each in Newfoundland and Labrador and New Brunswick. Nova Scotia's ratio was as high as $38 per $100 in own-source revenues during the late 1990s.

In 2005, Quebec and the four Atlantic Provinces all had higher rates of debt servicing relative to their own ability to generate revenue (at least $15 for every $100 in own-source revenue) than the other Canadian provinces.[180] The high debt -servicing cost to own-source revenue ratios in this region, and particularly in Nova Scotia and Newfoundland and Labrador, re-affirm the importance of strengthening the region's economy and improving its revenue-generating capacity to improve long-term fiscal health.

The most recent available statistics (not available at the time this section was originally prepared) show the ratio of debt charges to own-source revenues dropping to 20.4% in Nova Scotia and 21.8% in Newfoundland and Labrador in the 2006 fiscal year.

What about the provincial debt level relative to the provincial economy as a whole? In fiscal year 2005, Nova Scotia's net direct debt amounted to 39% of the value of the provincial Gross Domestic Product (GDP).[181] The provincial debt accounted for less than 30% of GDP during the 1980s but, after many years of successive and accumulated budgetary deficits, the ratio increased to 49% by 1999. The decline in Nova Scotia's debt-to-GDP ratio since that time reflects the combined impact of growth in provincial output; higher employment rates, earnings, and tax revenues; and the annual budgetary surpluses of recent years.[182] Nova Scotia's GDP has grown by an average of 5% annually since 2000 (in current prices), while the year-over-year expansion of the debt that occurred throughout the 1980s and 1990s began to ease in 2001 and then, more recently, to stabilize.[183]

By comparison, in 2005, Newfoundland and Labrador had the highest debt-to-GDP ratio in Canada, with this ratio exceeding 60% since 1993. Nova Scotia had the second highest debt-to-GDP in the country in 2005 (39%), while the other provinces (excluding Alberta,

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[180] Government of Canada. Department of Finance. *Fiscal Reference Tables*. (Ottawa: Government of Canada, September 2006).

[181] Statistics Canada. *CANSIM Table 384-0002 – Gross Domestic Product (GDP), Expenditure-Based, Provincial Economic Accounts, Annual*; Government of Canada, Department of Finance. *Fiscal Reference Tables*. (Ottawa: Government of Canada, September 2006).

[182] Province of Nova Scotia, Department of Finance. *Fiscal Overview 2007.* (Halifax: Province of Nova Scotia, 2007).

[183] Statistics Canada. *CANSIM Table 384-0002 – Gross Domestic Product (GDP), Expenditure-Based, Provincial Economic Accounts, Annual*; Government of Canada, Department of Finance. *Fiscal Reference Tables*. (Ottawa: Government of Canada, September 2006).

which has paid off its debt) ranged from 15% (British Columbia) to 33% (Quebec). The federal government's debt relative to total Canadian GDP was 39% in fiscal year 2005.

Despite the limitations of the GDP as a tool for measuring economic progress—particularly in failing to account for the value of natural, human, and social capital and for the full costs and benefits of different economic activities—the ratio of net direct debt relative to provincial GDP can provide a useful measure of a jurisdiction's ability to manage its debt and of government fiscal sustainability.[184] Although there is general agreement among economists and policy experts that continued growth in the level of debt relative to provincial GDP, as occurred in the 1980s and 1990s, is unsustainable, there is no consensus as to what the optimal ratio should be.[185] For example, a poll of economists at a recent conference on Canada's debt indicated widely divergent opinions on optimal debt-to-GDP ratios, ranging from 20–25% to as high as 46–50%.[186] From that perspective, the 2005 federal and Nova Scotia ratios of 39% may be considered in the mid-range of "acceptability."

Economists and policy experts who favour dedicated debt repayment strategies and lower debt-to-GDP ratios often argue that paying down government debt today represents a trade-off of taxpayers today paying more so that taxpayers tomorrow will face a lesser debt burden and have a fuller complement of public services. Thus, assuming that interest rates do not spiral too high, reducing the current level of provincial debt can potentially lower the tax burden for future generations of Nova Scotians and free up resources for provision of services.

In line with this reasoning, after two decades of budget deficits, the Nova Scotia government legislated the Financial Measures Act in 2000 requiring balanced budgets, and thus embarked on a deliberate strategy to rein in its budgets, reduce the debt-to-GDP ratio, and enhance its ability to manage and service the debt. Since 2000, Nova Scotia and the Prairie Provinces have been the only provinces in the country to have posted surpluses in each fiscal year. This improvement in debt management has been welcomed by financial markets and bond rating agencies, which see debt reduction as a sign of lower financial risk from these provinces.

Other economists and policy experts, however, argue that allocating a substantial portion of provincial spending towards debt repayment may come at the expense of necessary program spending and delivery of essential public services today—both of which can potentially function as important investments in the human and social capital on which future economic performance and prosperity will depend. For example, wise investments

[184] Indeed, GPI Atlantic has never advocated doing away with the GDP, but simply replacing its misuse as a measure of societal wellbeing and progress, for which the GDP was never intended and for which the Genuine Progress Index is a more accurate and comprehensive tool. In its more limited function as an aggregate of the market value of all goods and services, the GDP can be usefully employed as a comparative benchmark to assess the management of financial resources.

[185] Ragan, C., and W. Watson. *Is the Debt War Over?* (Montreal: Institute for Research on Public Policy, 2004).

[186] Canadian Centre for Policy Alternatives. *Assessing Nova Scotia's Fiscal Situation: Managing Social and Financial Debts*. (Halifax: Canadian Centre for Policy Alternatives, March 2007).

in health promotion and education may produce a healthier, more educated, and more productive work force. From that perspective, future generations will benefit from current investments in assets and in social programs, which will produce quantifiable returns and benefits well into the future. From this standpoint, therefore, it is reasonable to expect future generations to bear some of the costs of past and present investments in assets from which they will benefit.

If we accept that some forms of borrowing are valuable, it is clear that these two apparently divergent positions on debt reduction and incurring debt are reconcilable. Effective debt management is important to ensure that the province has a favourable credit rating, resulting in low-interest access to capital markets for borrowing. A high credit rating means the province will face less onerous borrowing charges from financial markets. The province's ability to access credit also depends on its active presence in financial markets. In other words, the province needs to incur debt in the financial markets on a regular basis in order to maintain a presence and facilitate future borrowing capacity.

Just as this report has distinguished throughout between debt incurred to build productive assets and debt incurred to finance current consumption, so government debt is by no means "bad" from the perspective of sound fiscal management and sustainability if it is wisely used to invest in sustainable prosperity. The province's debt management strategy, therefore, must balance debt repayment with ensuring adequate cash flow and investment to meet public service needs and obligations, with the former (effective debt management and repayment) favourably influencing the province's credit rating and, thu,s its ability to obtain low-interest credit for the purposes of the latter (investment in public services and assets).

Nova Scotia's fiscal management, improved credit rating, and consequent lower borrowing costs have received significant support in recent years from enhanced provincial revenues that, in turn, are related to lower unemployment rates and gains in real income (after significant real income declines for lower and middle-income Nova Scotians during the 1990s). Those economic gains, in turn, have helped significantly to stabilize the provincial debt, post budget surpluses, and reduce the debt-to-GDP ratio. From the standpoint of the Genuine Progress Index, therefore, and with the caveat that further investigation is required to assess and distinguish particular uses of debt and the specific trade-offs made between debt stabilization and service provision, the debt management trends of recent years can tentatively be judged to signal "genuine progress" for the province.

B4. Business Bankruptcies

A vibrant business sector contributes to a society's wellbeing and quality of life. However, if a business has an unmanageable debt burden, it may file for proposals or for bankruptcy. Sometimes, businesses find themselves in vulnerable financial situations, but potentially remain operationally viable even though they are temporarily unable to pay their debts. Though technically insolvent, these businesses can file "proposals" for settling some of their debts with creditors instead of declaring bankruptcy. Filing proposals rather than declaring bankruptcy enables the business to remain in operation while sorting out the financial crisis, which in turn can save jobs. Business bankruptcy involves the liquidation of all business assets and the ending of business operations, which can lead to potentially significant job losses.

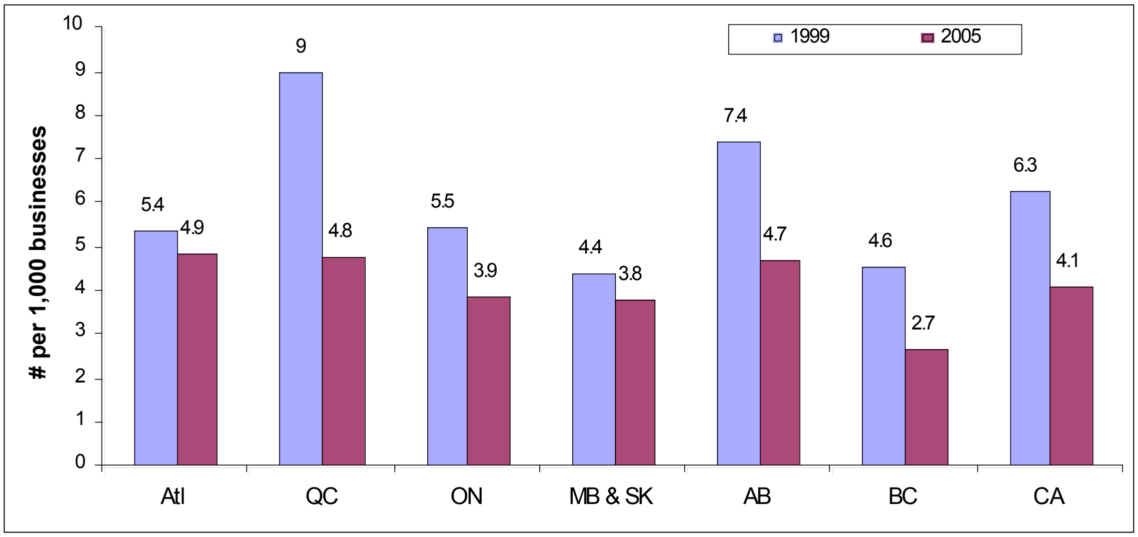
In the past ten years, business proposals have been on the rise. Reforms to the federal Bankruptcy and Insolvency Act in 1992 encouraged businesses to file proposals as an alternative to filing for bankruptcy. Consequently, by 2005, proposals accounted for nearly one-fifth of all insolvencies, instead of just 2% in the late 1980s.[187] It is important to note that businesses that file for bankruptcy or proposals are both considered insolvent.

The incidence of business insolvencies across Canada peaked in 1996 (following the recession of the early 1990s) at close to 15,000, and has steadily trended downwards since then, reaching 9,100 in 2005—the lowest level since 1987.[188] The ratio of business insolvencies to the number of businesses in operation is also decreasing. In 2005, this ratio was 4.1 business insolvencies for every 1,000 businesses, down by more than one-third from 6.3 business insolvencies per 1,000 businesses in 1999.

In 2005, Atlantic Canada had the highest ratio in the country of business insolvencies per 1,000 businesses (4.9), followed by Quebec (4.8) and Alberta (4.7). British Columbia had by far the fewest business insolvencies per 1,000 businesses—2.7. All Canadian regions have experienced a decline in the ratio of business insolvencies per 1,000 businesses from their respective 1999 levels (Figure C below).[189]

[187] Data in this section are drawn from Office of the Superintendent of Bankruptcy. *Business Insolvency in Canada: A National and Regional Analysis for the Period 1987–200.5* (Ottawa: Industry Canada, 2006).
[188] Ibid., page 3.
[189] Ibid., pages 5–6.

Appendix Figure C. Number of Insolvencies per 1,000 Businesses, by Region, 1999 and 2005



Source: Office of the Superintendent of Bankruptcy. *Business Insolvency in Canada: A National and Regional Analysis for the Period 1987–2005.* (Ottawa: Industry Canada, 2006), Figure 4. Available at: http://strategis.ic.gc.ca/epic/site/bsf-osb.nsf/en/br01707e.html [accessed August 1, 2007].

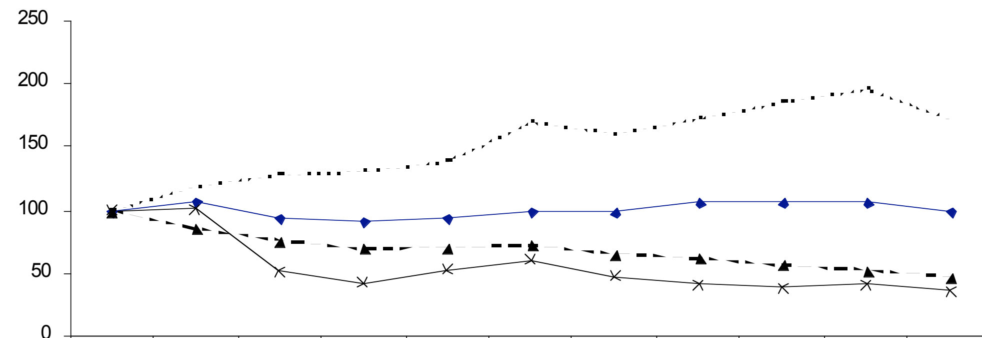
According to Statistics Canada data, the number of business bankruptcies in Atlantic Canada has actually been decreasing since the early 1990s. The region averaged 984 bankruptcies annually in the first half of the 1990s, 971 in the second half of the 1990s, and 651 annually during the 2000–2005 period—33% fewer than in 1995–1999. The drop in business bankruptcies in the Atlantic region has been sharper than in Canada as a whole, where the rate of bankruptcies declined by 28% between 1995–1999 and 2000–2005.[190]

Within the Atlantic region, business bankruptcies in Nova Scotia has shown the largest drop in the number of bankruptcies, averaging 39% less during the 2000–2005 period than in the second half of the 1990s. In the first half of the current decade, the province averaged about 303 business bankruptcies annually compared to over 600 during the first half of the 1990s. Overall, Nova Scotia accounts for nearly 50% of the Atlantic region's business bankruptcies.

What is particularly noteworthy in the province is the growing divergence between business and consumer bankruptcies. While Nova Scotia business bankruptcies fell by 58% between 1996 and 2005, consumer bankruptcies *increased* by over 95% during the same period. In Canada as a whole, business bankruptcies fell by more than one-half during this period while consumer bankruptcies were up 6% (see Figure D below).

[190] Business bankruptcy data in this section are from Statistics Canada. *CANSIM Table 177-0006 – Business Bankruptcies and Liabilities, by North American Industry Classification System (NAICS), Annual.*

Appendix Figure D. Trends in Consumer and Business Bankruptcies (Index 1996 = 100), Canada and Nova Scotia, 1996–2005



	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
CA Consumers	100	107.1	94.8	91.7	94.4	99.8	98.2	105.8	106	106.3	99.5
NS Consumers	100	119.5	127.6	130.3	138.6	169.4	160.3	172.5	184.6	195.8	170.9
CA Business	100	85.7	75.8	70.5	70.7	73.1	66.6	62.2	57.1	52.8	47.5
NS Business	100	101.1	51.9	43	53.3	61	47.5	41.9	38.6	41.9	36.5

Source: Statistics Canada. *CANSIM Table 177-0001 – Consumer Bankruptcies, Annual*; Statistics Canada. *CANSIM Table 177-0002 – Business Bankruptcies and Liabilities, by Type of Industry, Annual.* Index calculation by GPI Atlantic.

Nationwide and in Nova Scotia, the businesses that account for the largest share of total bankruptcies are concentrated in construction, retail, and accommodation and food services.[191] In 2006, these three sectors together accounted for 45% of all business bankruptcies in Nova Scotia. The number of Nova Scotia bankruptcies in construction and retail has declined in recent years, but the province's manufacturing sector has seen the biggest relative rise in bankruptcies—from 7 in 2004 to 17 in 2006. The jump in bankruptcies in the manufacturing sector is not surprising, given the difficulties that the sector has faced. Intensifying global competition, cost pressures, and the appreciation of the Canadian dollar against the U.S. dollar have challenged the viability of many manufacturing enterprises, particularly since 2004.[192]

[191] Statistics Canada. *CANSIM Table 177-0006 – Business Bankruptcies and Liabilities, by North American Industry Classification System (NAICS), Annual.*
[192] Tulk, David. *Domestic Resilience Trumps Manufacturing Woes in Canada's Labour Market.* (Toronto: Toronto Dominion (TD) Economics, June 15, 2006).

APPENDIX C: GPI ATLANTIC REPORT ON 1999 SURVEY OF FINANCIAL SECURITY

GPI Atlantic's January 2003 report *Women's Health in Atlantic Canada, Volume 1*, on social determinants of health, included an analysis of data from Statistics Canada's 1999 Survey of Financial Security (SFS). That analysis, in turn, was based on the customized regional data runs from the 1999 SFS, published in Steve Kerstetter's *Rags and Riches: Wealth Inequality in Canada* (Canadian Centre for Policy Alternatives, Ottawa and Vancouver, December 2002). The chapter on financial security from the 2003 GPI women's health report is reproduced here because of its relevance to this particular study. In particular, bringing together in one place key SFS-based data and analysis on debt, assets, wealth, and financial security previously referenced in other GPI Atlantic reports is intended to facilitate reference to this material by researchers and other users.

As noted throughout this particular report, the 1999 SFS had a sample size about three times that of the 2005 SFS and, therefore, allowed for regional breakdowns and analysis not possible using 2005 data. For that reason, the following analysis, though somewhat dated, may be a useful corollary to the material in this report.

GPI Atlantic is aware of critiques of the Kerstetter analysis on which the following pages rely—particularly in not accounting adequately for the dynamics of shifts in wealth holdings throughout the life cycle and the tendency to move into higher wealth groups with age. However, the age dimension is referenced above in the bulk of this particular report, including the degree to which a life cycle analysis may or may not adequately explain trends over time in wealth distribution in Canada, and a critique of the Kerstetter analysis is referenced in Chapter 4.[193] As well, a Statistics Canada life cycle analysis is referenced in Chapter 5.[194] Nevertheless, Kerstetter's regional breakdowns from the 1999 SFS are so important and relevant that we have decided to reproduce GPI Atlantic's earlier descriptions of these as an appendix here.

The following is reproduced from GPI Atlantic's January, 2003, report, *Women's Health in Atlantic Canada, Volume 1*, available for free download at: http://www.gpiatlantic.org/pdf/health/womens/womensvol1.pdf.

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[193] Mason, Ian Garrick. Review of Kerstetter, Steve. *Rags and Riches: Wealth Inequality in Canada*. (Canadian Centre for Policy Alternatives, 2002). In *Literary Review of Canada,* January/February 2003. Available at: http://www3.sympatico.ca/ian.g.mason/Rags_and_Riches.htm [accessed June 18, 2008].
[194] Augustin, Baudelaire, and Dimitri Sanga. "Income and Wealth." *Perspectives on Labour and Income.* (Ottawa: Statistics Canada, vol. 3, no. 11, catalogue no. 75-001-XIE, November 2002). Available at: http://www.statcan.ca/english/freepub/75-001-XIE/01102/ar-ar_200211_03_a.html [accessed June 18, 2008].

C1. Financial Security

Income is only one aspect of financial security. But unexpected events—sudden illness, disability, injury, death of the main earner, layoff, or other job loss—can threaten income and leave families dependent on their accumulated assets. Cuts in federal social transfers in the 1990s reduced social assistance payments to levels well below the Statistics Canada low-income cut-off line, and left more families dependent on their own resources for survival. The percentage of unemployed workers receiving unemployment insurance benefits was cut in half during the 1990s. The illness of a spouse, partner, child, or elderly parent may not only reduce income, but may sharply increase financial needs for proper care. Drug costs can be a particular financial drain. In Canada overall, nearly 30% of medical costs are privately financed, but 65% of drug expenditures are paid for privately.[195] Individual or family assets are often the only recourse to weather such a crisis.

Until very recently, current information on the financial assets of Canadians was unavailable. But in 1999, Statistics Canada conducted a Survey of Financial Security (SFS)—the first such assessment of the debts, assets, wealth, and net worth of Canadians since 1984. An overview of results became available in 2001, but very limited regional or provincial information was publicly available until December 2002, except in highly aggregated form.[196] The Canadian Centre for Policy Alternatives has now released specially commissioned regional data runs from the SFS that, for the first time, reveal the wealth gaps within Atlantic Canada by family characteristics, and allow an assessment of the financial status of different family types including single mothers.[197]

The SFS counted both financial assets (e.g., RRSPs, savings plans, bank accounts, mutual and investment funds, stocks and bonds) and non-financial assets (house, real estate, vehicles, furnishings, valuables). Among debts, it counted mortgages, credit card and instalment debt, student loans, vehicle loans, lines of credit, and unpaid bills. Wealth simply means assets minus debts and is the same as "net worth." For example, the market value of a house minus the mortgage is the wealth tied up in the house. If a household has more debts than assets, it has "negative wealth" or a net debt load.

This new information on financial security allows us to expand our understanding of the socioeconomic determinants of women's health in Atlantic Canada beyond what was possible in the 2000 statistical profile. Before exploring issues of particular relevance to women and their health, we shall summarize some of the key findings of the new SFS to provide a context for the discussion.

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[195] Canadian Institute for Health Information (CIHI). *Figure 5: Public and Private Shares of Total Health Expenditure, by Use of Funds, Current Dollars, Canada, 2000*. Available at: http://secure.cihi.ca/cihiweb/dispPage.jsp?cw_page=media_18dec2002_fig5_e.

[196] Statistics Canada. *The Assets and Debts of Canadians: An Overview of the Results of the Survey of Financial Security*. (Ottawa: Statistics Canada, catalogue no. 13-595-XIE, March 15, 2001).

[197] Kerstetter, Steve. *Rags and Riches: Wealth Inequality in Canada.* (Ottawa and Vancouver: Canadian Centre for Policy Alternatives, December 2002), particularly Appendices A–D.

C1.1 Wealth Distribution in Canada

The 1999 Survey of Financial Security (SFS) showed that the wealthiest 10% of family units in Canada now hold 53% of the wealth, and the wealthiest 50% control 94.4% of all wealth, leaving just 5.6% for the bottom 50%.[198] The poorest one-quarter of Canadian households own 0.1% or one-thousandth of the wealth in Canada. Not surprisingly, many Canadians live in a state of chronic financial insecurity that leaves them unable to weather a financial storm. Statistics Canada found that among the poorest 20% of households, nearly one-third fell behind two months or more in a bill, loan, rent, or mortgage payment in 1998.[199]

But financial insecurity extends beyond the poorest families. Canadians in the middle of the spectrum have most of their wealth tied up in housing, which is not easy to "cash in" at a time of financial crisis.[200] The financial assets that provide more solid financial security are held almost entirely by the wealthiest households. Thus, the wealthiest 20% of Canadians hold 72% of the wealth in RRSPs and other registered savings plans, 81% of mutual and investment funds, and 94% of stocks. RRSPs, savings plans, capital gains, and stock dividends all get preferred income tax treatment. When housing is excluded, the richest 20% of households hold 76.2% of the country's wealth. When housing is included, they own 70.4%. Excluding housing, the richest 40% own 90.8% of the wealth, leaving 9.2% for the remaining 60%.[201]

Examining the distribution of both financial and non-financial assets, the Canadian Centre for Policy Alternatives concludes that "financial insecurity may actually be the norm these days and financial security the exception to the rule."[202]

Since 1984, the wealth gap between rich and poor Canadians has grown wider, with the bottom 30% losing wealth and the top 30% increasing their wealth by more than 30%. The poorest 10% of Canadian households have more debts than assets, and saw their median net debt load (i.e., negative wealth) grow by $3,876 dollars from $1,824 in 1984 to $5,700 in 1999 (constant 1999 dollars). In other words, they wound up deeper in debt. At the same time, the richest 10% of Canadian households saw their median wealth grow by 35% from $464,376 to $628,100.[203]

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[198] Ibid., Summary, page 4.
[199] Pyper, Wendy. "Falling Behind." *Perspectives on Labour and Income.* (Ottawa: Statistics Canada, catalogue no. 75-001-XIE, July 2002), page 18.
[200] Kerstetter, Steve. *Rags and Riches: Wealth Inequality in Canada.* (Ottawa and Vancouver: Canadian Centre for Policy Alternatives, December 2002), pages 4 and 31.
[201] Ibid., pages 4 and 41.
[202] Ibid.
[203] Morissette, Rene, Xuelin Zhang, and Marie Drolet. *The Evolution of Wealth Inequality in Canada, 1984–1999.* (Ottawa: Statistics Canada, no. 187, catalogue no. 11F0019, February 22, 2002), Table 4, page 25; Statistics Canada. *The Daily.* February 22, 2002. Statistics Canada has adjusted the 1999 SFS figures to be comparable to 1984 data from the 1984 Assets and Debts Survey. So the 1999 figures given here are not entirely comparable with the 1999 figures from the SFS used elsewhere in this chapter. The adjustment is necessary because the 1999 survey included some items not covered in 1984, such as contents of the home, collectibles and valuables, annuities, and Registered Retirement Income Funds. In order to assess whether

The "median" is the mid-way point at which 50% of households within that group have more wealth and 50% have less wealth. In other words, the median represents the "typical" household within that group. By contrast, the "average" value is derived by simply dividing the total wealth in the group by the number of households in the group. Thus, the average wealth of the top 10% will be heavily influenced by the very great wealth of those in the top 1%.

When average values are examined, the richest 10% of Canadian households had $980,903 in wealth in 1999, an increase of 122% in constant dollars since 1970, and an increase of 47% since 1984. By contrast, the poorest 10% in 1999 had an average of $10,656 more in debts than they had in assets, an increase in net debt of 28% since 1970, and of 79% since 1984.[204]

C1.2 Regional Wealth Disparities in Canada

These averages also conceal major regional disparities. The average wealth in Atlantic Canada is less than half that in British Columbia, and about 56% of that in Ontario (Figure E below).[205]

In fact, the gap between the rich and poor provinces has grown in the last 30 years, with the Atlantic region registering the slowest rate of wealth growth in the country. The gap has grown particularly large since the mid-1980s. In 1984, the four Atlantic Provinces together had 5.4% of the nation's wealth. By 1999, they had just 4.4%, despite having 7.8% of the country's population. In 1984, average personal wealth in Atlantic Canada was 61.6% of that in Ontario. In 1999, it was just 52.8% of that in Ontario.[206]

All four Atlantic Provinces have registered declining shares of national wealth, with Newfoundland and Labrador the biggest loser. Newfoundland's share of the national wealth dropped by 36% to just 0.7% of the national total. Prince Edward Island's share dropped by 20%, Nova Scotia's share dropped by 14%, and New Brunswick's by 12%

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the total wealth of different groups increased or decreased between 1984 and 1999, those items were excluded from the 1999 data for comparative purposes.

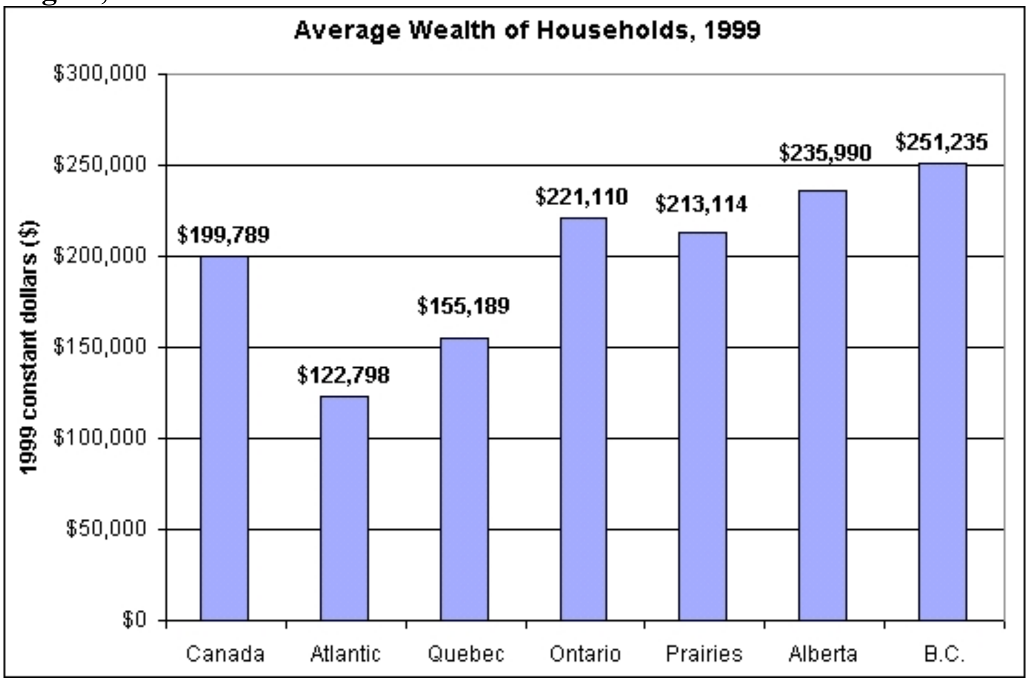
[204] Kerstetter, Steve. *Rags and Riches: Wealth Inequality in Canada.* (Ottawa and Vancouver: Canadian Centre for Policy Alternatives, December 2002), pages 4 and 13, especially Table 1-4.

[205] Ibid., Appendix A, pages 1–6 and Appendix B, page 7.

[206] Percentages are derived from Kerstetter, op. cit., Tables II-5 and II-6, pages 20–21. Please note that, since the percentages cited here were derived from Kerstetter's tables, further work is required to reconcile them with the percentages cited earlier in this report, which are derived from the SFS materials supplied to GPI Atlantic by Statistics Canada's Income Statistics Division. There, we noted that Atlantic Canada accounted for 5.3% of the nation's household wealth in 1984 and for 4.9% in 2005. If the numbers are found to be fully comparable, this would seem to indicate a partial recovery for the Atlantic region from 1999 to 2005, relative to the rest of the country. On the other hand, the regional data examined in this report indicate a larger gap between debt growth (62%) and asset growth (35%) in Atlantic Canada than in any other region of the country, which would make it unlikely that Atlantic Canada recovered any of its wealth standing relative to the rest of the county during this period. These two sets of statistics had not been reconciled at the time of writing, and further work is necessary to do so.

(Figure F below).[207] A disproportionate share of wealth is concentrated in just three provinces in Canada: Ontario has 40.5% of the country's wealth with just 36.7% of households; British Columbia has 17.6% of the wealth and 13.8% of households; and Alberta has 11.6% of the wealth and only 9.5% of households.[208]

Appendix Figure E. Average Wealth of Households (1999 constant dollars), by Region, 1999

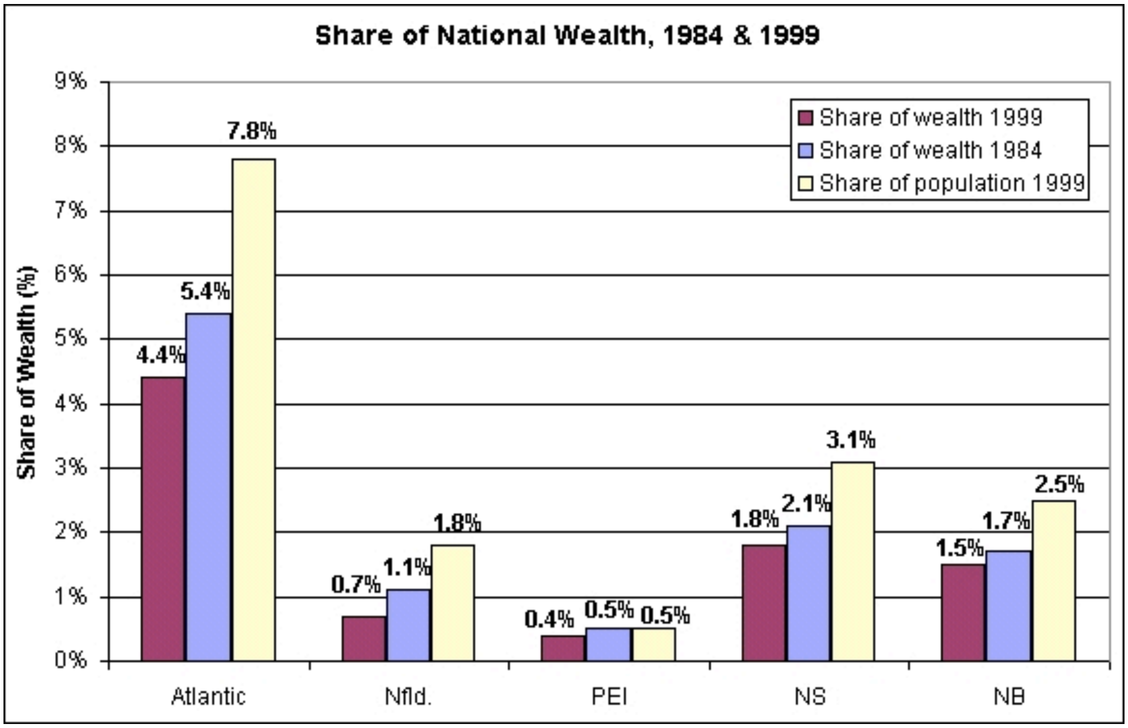


Note: The Prairies here include Alberta, which has considerably higher average wealth than Manitoba or Saskatchewan, and is, therefore, also listed separately.

Source: Statistics Canada. *Survey of Financial Security.* Cited in Kerstetter, Steve. *Rags and Riches: Wealth Inequality in Canada*. (Ottawa and Vancouver: Canadian Centre for Policy Alternatives, December 2002).

[207] Ibid., Table II-6, page 21.
[208] Ibid.

Appendix Figure F. Share of National Wealth (%), Atlantic Provinces, 1984 and 1999



Source: Statistics Canada. *Survey of Financial Security.* Cited in Kerstetter, Steve. *Rags and Riches: Wealth Inequality in Canada*. (Ottawa and Vancouver: Canadian Centre for Policy Alternatives, December 2002).

C1.3 Wealth Distribution in Atlantic Canada

Atlantic Canada's $122,798 in average household wealth is far from evenly distributed. The 1999 SFS showed that 7.8% of Atlantic Canadian family units, 72,591 in all, had more debts than assets, with an average net debt of $10,607. Another 9.5%, or 88,439 households, had minimal wealth averaging just $1,628, and another 7.4%, or 68,720 households, had net average wealth of $9,037. Taken together, one-quarter of Atlantic Canadian households controlled 0% of the region's wealth, since debts balanced assets for that portion of households. The bottom 44% of Atlantic Canadian family units controls just 5% of the region's wealth.[209]

At the same time, the richest 8.3% of family units in Atlantic Canada had an average wealth of $332,227 per household. That, of course, includes the region's wealthiest families. According to a 2002 edition of the Canadian Business Magazine, the Irving family of New Brunswick, with its oil, forestry, media, and other interests, was the third wealthiest family in Canada, with a net worth of $4 billion. Harrison McCain, also of

[209] Ibid., Appendix A, page 1.

New Brunswick, with frozen food interests, was worth a reputed $1.65 billion, while the Sobey family in Nova Scotia was worth a modest $342 million.[210]

In Atlantic Canada, the richest 10% owned 49% of the region's wealth, compared to 53% in the Prairies, 55% in British Columbia, and 56% in Quebec.[211] The difference between the poorest and richest halves of family units was also somewhat less extreme in Atlantic Canada than in other parts of the country. The richest 50% of Atlantic households controlled 92.2% of the region's wealth, leaving 7.8% for the poorest 50%. By contrast, the richest 50% in Ontario owned 93.8% of the wealth, leaving 6.2% for the poorest 50%, and the richest 50% in British Columbia controlled 95.7% of that province's wealth, leaving only 4.3% for the poorest 50%.[212]

The real difference between Atlantic Canada and the rest of the country in terms of wealth distribution is in the proportion of family units in the middle and top groups. Aside from a small number of extremely wealthy families, Atlantic Canada on the whole has fewer wealthy households than most other regions of the country, and, therefore, has a somewhat less extreme concentration of wealth at the top.

About one-third of Atlantic Canadians have net wealth worth less than $30,000, a similar proportion to other regions of the country. However, the Atlantic region has significantly fewer households with wealth in excess of $150,000, and, therefore, a significantly larger proportion of its family units with net wealth between $30,000 and $150,000 (Figure G below).[213]

While the gap between rich and poor in Atlantic Canada is large by any standards, the region could be considered marginally more equitable than other regions, but only because it has fewer wealthy households and is not quite as "top-heavy" as other regions. If we break down the middle category ($30,000 to $150,000) further, we find that, in 1999, 21.7% of Atlantic Canadian households had an average net worth between $30,000 and $75,000 (including the value of their house).

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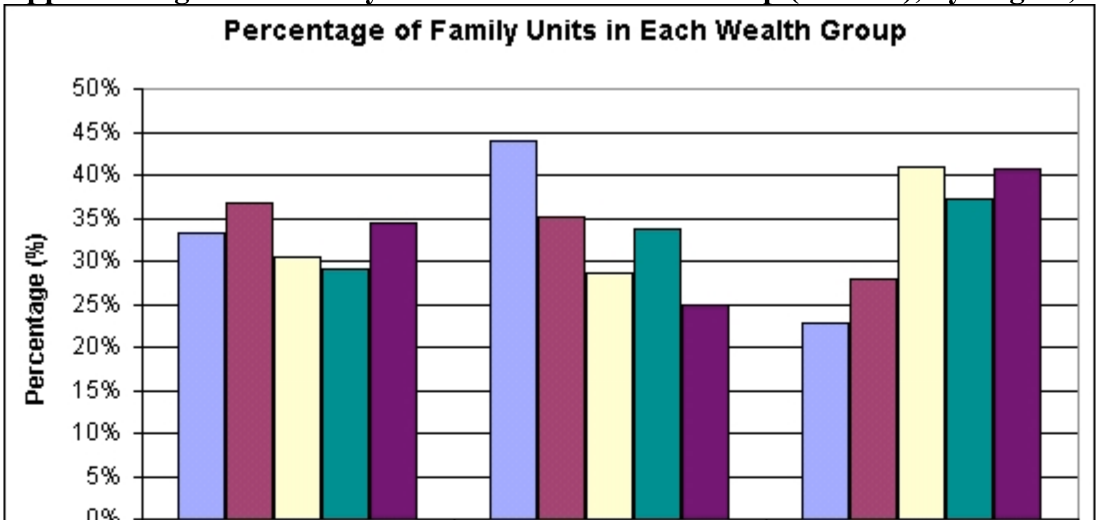
[210] *Canadian Business Magazine,* December 9, 2002; National Post, May 25, 2002, "Canada's Fifty Richest."
[211] Kerstetter, Steve. *Rags and Riches: Wealth Inequality in Canada.* (Ottawa and Vancouver: Canadian Centre for Policy Alternatives, December 2002), Table II-1, page 17, and Appendix A.
[212] Ibid., pages 16–17, especially Table II-1.
[213] Ibid., pages 18–19, especially Table II-3.

Appendix Figure G. Family Units in Each Wealth Group (Percent), by Region, 1999



	Under $30,000	$30,000 - $150,000	$150,000+
Atlantic	33.2%	44.0%	22.7%
Quebec	36.7%	35.2%	28.0%
Ontario	30.4%	28.7%	40.9%
Prairies	29.0%	33.8%	37.3%
BC	34.4%	24.8%	40.8%

Note: Numbers do not add to 100% because the $150,000+ category includes the $500,000 category.

Source: Statistics Canada. *Survey of Financial Security.* Cited in Kerstetter, Steve. *Rags and Riches: Wealth Inequality in Canada*. (Ottawa and Vancouver: Canadian Centre for Policy Alternatives, December 2002).

More than half (55%) of Atlantic Canadians had less than $75,000 in wealth, with most of their assets tied up in their homes. As noted earlier, the modest wealth in the middle is mostly not in the form of liquid assets that can be used in a time of crisis; it is more likely to be a house, car, furnishings, or personal valuables that are not easy to give up or convert into cash.

In interpreting the data below, it is important not to take the numbers as meaning that wealth is relatively evenly distributed towards the middle, or that Atlantic Canadians in the middle of the wealth spectrum have more assets than those in the middle in other regions. That is not the case. What the numbers mean is that the "millionaires' club" is considerably smaller in Atlantic Canada, and that there are, therefore, larger numbers of households with smaller amounts of wealth. In other words, the wealth spectrum, on average, does not go as high at the top end, and so a smaller proportion of households fall into the $150,000+ and $500,000+ categories. The numbers mean that, with few exceptions, the wealthy in Atlantic Canada are *less* wealthy than the wealthy in other parts of the country.

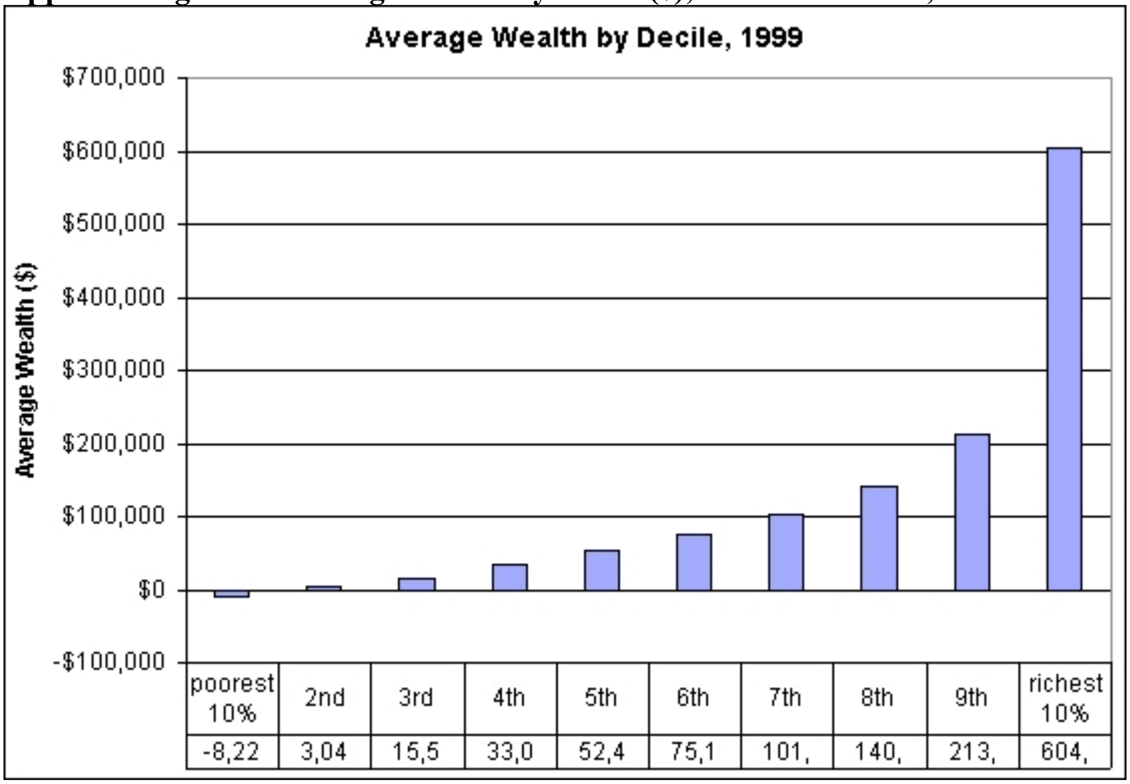
Atlantic Canada has 10,673 millionaire households—or 1.1% of all households in the region. By contrast, 1.8% of households in Quebec, 2.5% in the Prairies, 3.1% in Ontario, and 3.3% in British Columbia have wealth in excess of $1 million. Ontario's 138,022 millionaire households have an average wealth of nearly $2 million. Each of the other regions has more than 50,000 millionaire households with average wealth greater than $2.5 million.[214] Atlantic Canada has 7.8% of the country's population and 3.4% of the millionaire households.[215]

If we break down the Atlantic region's average household wealth of $122,798 by deciles, ranging from the poorest 10% of households to the richest 10%, we find staggering wealth disparities in this region, as in all others (Figure H below). In fact, the poorest 10% of Atlantic Canadian households are deeper in debt in absolute terms than the poorest 10% in any other region. The average net debt (or negative wealth) of the poorest 10% of households in Atlantic Canada is $8,227—more than $1,000 more indebted than the poorest 10% in Quebec and Ontario, and more than $2,500 more indebted than the poorest 10% in the Prairies.

As well, a higher percentage of Atlantic households (7.8%) had negative wealth, or debts that exceeded assets, than in any other region. By comparison, 5.5% of family units in Quebec, 6.8% in Ontario, 6% in the Prairies, 6.4% in Alberta, and 7.3% in British Columbia had negative wealth. Among those Atlantic Canadians with negative wealth, average net debt was $10,607.

[214] Ibid, Table II-4, page 19.
[215] Ibid., page 11.

Appendix Figure H. Average Wealth by Decile ($), Atlantic Canada, 1999



Source: Statistics Canada. *Survey of Financial Security.* Cited in Kerstetter, Steve. *Rags and Riches: Wealth Inequality in Canada*. (Ottawa and Vancouver: Canadian Centre for Policy Alternatives, December 2002).

The richest 20% of Atlantic Canadian households owned two-thirds of the wealth, and the richest 40% owned 86% of the wealth, leaving just 14% of the wealth to the poorer 60% of households. The poorest 40% of households held just 3.6% of the region's wealth.

The poorest 20% had an average net debt of $2,602, and the second poorest 20% had an average net wealth of only $24,290. Moreover, that modest wealth is not easily convertible to cash because 54.4% of this group's assets were tied up in housing. When vehicles, household furnishings, and personal valuables were added, these non-financial assets amounted to 85.4% of all assets. In other words, there is very little in the bank or in any other form that can be used at a time of financial crisis. The middle 20% of family units in Atlantic Canada had an even larger share of their wealth tied up in housing—fully 60% of their wealth was in the market value of their homes.

It is only at the very top that the balance changes. Only a quarter of the wealth of the richest 20% of Atlantic Canadian households was in housing. But they owned nearly 80% of all financial assets, including 77% of RRSPs and other registered savings plans, and 84% of mutual and investment funds. Their average financial assets alone ($161,449) were six times greater than those of the second richest 20% of Atlantic region households, 12.4 times greater than those in the middle 20%, and 26 times greater than those in the second poorest 20%. In addition to financial assets, the richest 20% also controlled 95% of all equity in business. The richest 20% had an average wealth of $408,106.

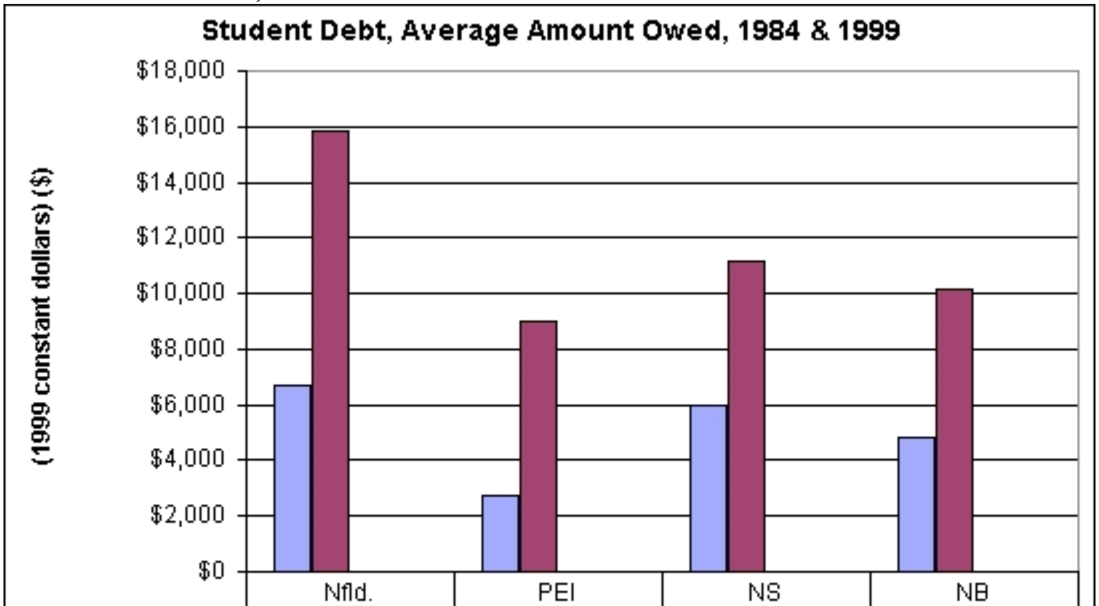
The distribution of wealth in Prince Edward Island is different from that in the other Atlantic Provinces due to nearly 40% of all assets on the island being tied up in equity in a business. This compares to just 9.4% in Newfoundland, 9.1% in Nova Scotia, and 21.5% in New Brunswick. As a percentage of all households, more than twice as many Islanders have equity in a business (23.3%) as in the other provinces (12% in Newfoundland, 11% in Nova Scotia, and 11.5% in New Brunswick). While data from the 1999 SFS were not available to explain this disparity, it seems likely that a significant percentage of Prince Edward Island family units have their wealth tied up in family farms and related businesses.[216]

Households in Atlantic Canada are also distinguished from other regions by their high ratios of student debt to total debt. Student debt in Newfoundland amounted to 14.2% of all debt in the province. Those family units with student debt owed an average of $15,835, a massive increase from the average $6,719 in student debt owed in 1984 (both in constant 1999 dollars). Average student debt in Nova Scotia amounted to $11,174 in 1999, and constituted 6% of all debt in the province. The amount owed also more than doubled from $5,943 in 1984. In New Brunswick, student debt amounted to 8.3% of all debt in the province in 1999, and those with student debt owed an average of $10,140, up from $4,812 in 1984. Student debt in Prince Edward Island amounted to 4.4% of all debt, with the average amount owed $9,012, up from $2,762 in 1984 (Figure I below).[217]

All these proportions are considerably larger than the Canadian average, where student debt accounted for just 3.2% of all debt. In Canada as a whole, 5% of family units carried student debt in 1984, with an average value of $4,899. In 1999, 12% of family units carried student debt and owed an average of $10,361. The marked increases in student debt are clearly a reflection of the massive rise in university tuition in the 1990s, which has left many young people carrying major debt loads.

[216] Percentages derived from Kerstetter, op. cit., Appendix D, pages 51–54.
[217] Ibid.

Appendix Figure I. Average Amount of Student Debt Owed (1999 constant dollars), Atlantic Provinces, 1984 and 1999



	Nfld.	PEI	NS	NB
1984	$6,719	$2,762	$5,943	$4,812
1999	$15,835	$9,012	$11,174	$10,140
% total debt 1984	3.4%	0.7%	4.1%	2.0%
% total debt 1999	14.2%	4.4%	6.0%	8.3%

Source: Statistics Canada. *Survey of Financial Security.* Cited in Kerstetter, Steve. *Rags and Riches: Wealth Inequality in Canada*. (Ottawa and Vancouver: Canadian Centre for Policy Alternatives, December 2002).

For the poorest 20% of family units in Atlantic Canada, student debt was by far the largest debt item, amounting to 40% of all debts owed by those households. Among the poorest 20% of Atlantic Canadians, 36% of households carried such debt and owed an average of $12,671.

Between 1984 and 1999, wealth distribution in each of the four Atlantic Provinces became more unequal, as it did in Canada as a whole. That can be gauged by the relative changes in median and average wealth, since the former represents the amount owned by the typical household in the middle of the wealth spectrum, while the group average can be skewed upwards by gains at the top. In Newfoundland and Labrador, Nova Scotia, and Prince Edward Island, median wealth fell between 1984 and 1999 while average wealth increased, which means that the typical household saw its real wealth decline while the rich saw major gains. In New Brunswick, average wealth increased by 30% while median wealth increased by only 14%, meaning that the gains of the richest New Brunswickers were substantially greater than those of the typical household in that province.

In Newfoundland and Labrador, median wealth fell by 22.5% from $52,108 in 1984 to just $40,400 in 1999, while average wealth grew very slightly during this period. This means that the gap between rich and poor within Newfoundland grew substantially, with a growing number of Newfoundlanders seeing their wealth decline and a few increasing their holdings.

Similarly in Nova Scotia, average wealth increased by 24% to $105,124, while median wealth declined slightly to $50,700 between 1984 and 1999. This again means that the gains in wealth are entirely attributable to gains made by the wealthiest Nova Scotians, while most Nova Scotians saw no increase in their wealth during this period.

This pattern is not different from the rest of Canada. Examining the national data, the Canadian Centre for Policy Alternatives study concluded that "the huge increases in personal wealth over the years have gone primarily to the family units at the very top and very little has trickled down to family units below the median."[218]

C1.4 Gender and Wealth in Atlantic Canada

We know that equity and financial status are key determinants of health, so Statistics Canada's 1999 Survey of Financial Security—the first such assessment of wealth distribution in Canada in 15 years—is a vital new source of information. Key results for Atlantic Canada can now be provided for the first time, thanks to special regional custom tabulations ordered by the Canadian Centre for Policy Alternatives, and are, therefore, presented here in some detail. However, while income indicators are more amenable to gender analysis, because the information is gathered from individuals, wealth is measured by family units. This presents particular challenges in assessing the impacts of unequal wealth distribution on women and on women's health, in particular.

Most households consist of husband–wife families, where the spouses supposedly share the family wealth. However, that is an assumption which must be independently tested rather than taken for granted. Whether the stocks, bonds, mutual fund investments, business equity, and other assets currently attributed to husband–wife families are in fact fully shared, and whether they provide similar levels of financial security to both partners, is unknown. Unfortunately, the new Statistics Canada data currently provide no way of assessing the impact of unequal wealth distribution on such traditional families from a gender perspective.

Gender differences in relation to wealth distribution are possible to assess for three groups—lone parents, unattached seniors, and unattached individuals under age 65—since these are listed separately by sex and family type in the Statistics Canada wealth data.[219] Families with two earners tend to be much better off than both people living alone and lone-parent families, primarily because the two incomes can more easily be

[218] Ibid., page 22.
[219] Supplementary data on the wealth of single mothers was separately supplied by Statistics Canada in special custom tabulations ordered by the Canadian Centre for Policy Alternatives.

used to build up assets. In addition, single mothers with infants spend three times as much a proportion of their incomes on paid child care as married mothers, and often take on low-paying, part-time jobs in order to juggle their work schedules with their child-rearing responsibilities.

Canada's half million single mothers and 2.9 million unattached individuals under age 65 have the lowest median wealth of any family types—$11,355 for single mothers, $11,240 for unattached men, and $12,000 for unattached women under 65. This amounts to about 11% of the median wealth of couples under 65 with children, and 9% of the median wealth of childless couples under 65. Though they represent 23.5% of all family units, unattached individuals under 65 collectively own only 8.7% of the nation's wealth. Single mothers represent 4.2% of all family units in Canada, but own just 1.2% of the country's wealth.[220]

The financial security of single mothers is probably more precarious than that of most unattached individuals because they are supporting one or more children. In the event of a child's sickness or special needs, single mothers may need to forego income and may have greater need of financial resources than unattached younger individuals. Adjusting the 1999 wealth data for comparability, the median wealth of single mothers in Canada rose from $1,870 in 1984 to $3,656 in 1999—almost double in relative terms, but only a very marginal increase in absolute terms to a level that hardly provides adequate financial security in the case of crisis or unexpected financial need.[221]

The numbers are even starker in Atlantic Canada. Median wealth for unattached individuals under 65 is markedly lower—just $6,218. This is not enough to weather any kind of financial crisis in the event of sickness, disability, or job loss. It amounts to just 8.7% of the median wealth of couples under 65 with children, and 7.2% of the median wealth of childless couples under 65. Unattached individuals under 65 represent 18% of all family units in the Atlantic region, but they own just 7% of total wealth.

Single mothers in Atlantic Canada have lower median wealth than their counterparts in any other region—just $8,200 per family (Figure J below). This amounts to 11.4% of the median wealth of couples with children and 9.5% of the median wealth of childless couples in the Atlantic region. Again, it is worth noting that the median represents the typical household within this group, and the point at which 50% of this family type has greater wealth and 50% has less.

The average wealth of single mothers in Atlantic Canada is more than four times greater than the median wealth, indicating that a minority of wealthy single parents is pushing up the group average. In British Columbia, the huge 11-fold disparity between the average and median wealth of single mothers similarly indicates a massive wealth gap within that

[220] Ibid., pages 42–45, and Appendix C, pages 44–50.

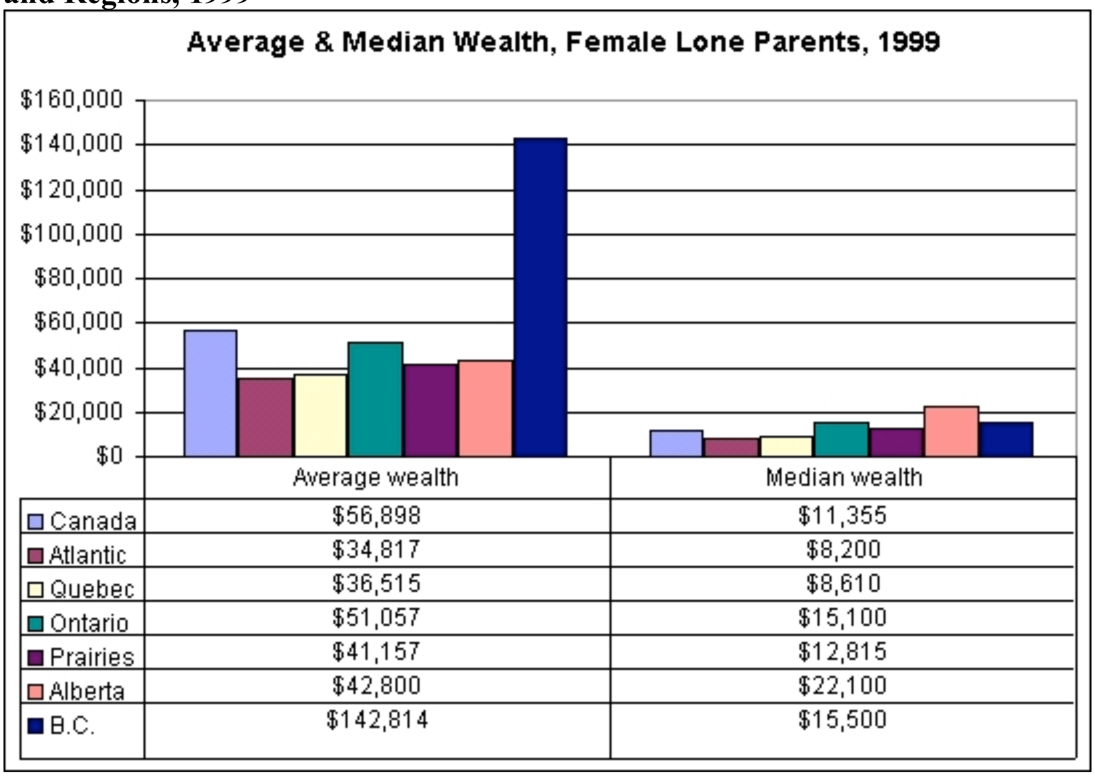
[221] Ibid., Table VI-4, page 57. Note that comparisons between 1984 and 1999 wealth omit the value of household furnishings, collectibles and valuables, annuities, and Registered Retirement Income Funds, since those items were not counted in 1984. These items are, therefore, subtracted from the 1999 data for comparative purposes. The figures given here are not comparable to data drawn directly from the 1999 survey.

group, with the majority of single mothers having minimal wealth, and a small minority having very substantial wealth.

Older people tend to have more wealth, as they have had longer both to accumulate assets and to pay off mortgages and other debts. Families 65 and older represent 9.7% of family units in Canada but they own 16% of the country's wealth, with a median wealth of $202,000, and an average wealth of $329,804, the largest of any family type.

Marked gender differences become apparent in the data on unattached seniors. Unattached elderly men in Canada have median wealth of $111,000, which is 45% greater than that of unattached elderly women ($76,600). The average wealth of unattached elderly men is $214,594, compared to $152,685 for unattached elderly women.

Appendix Figure J. Average and Median Wealth ($), Female Lone Parents, Canada and Regions, 1999



	Average wealth	Median wealth
Canada	$56,898	$11,355
Atlantic	$34,817	$8,200
Quebec	$36,515	$8,610
Ontario	$51,057	$15,100
Prairies	$41,157	$12,815
Alberta	$42,800	$22,100
B.C.	$142,814	$15,500

Source: Statistics Canada. *Survey of Financial Security.* Cited in Kerstetter, Steve. *Rags and Riches: Wealth Inequality in Canada*. (Ottawa and Vancouver: Canadian Centre for Policy Alternatives, December 2002).

There are 266,600 unattached elderly men in Canada, representing 2.2% of all family units, and they hold 2.3% of all wealth, roughly in proportion to their numbers. However, there are three times as many unattached elderly women (786,000), largely because women live longer. These senior women represent 6.4% of all family units in Canada, but own only 4.9% of the wealth.[222]

Gender breakdowns are not available by region, but unattached seniors in Atlantic Canada have a median wealth of $59,700 and average wealth of $133,983.[223] While the assets of older people are considerably greater than those of younger people, the much higher proportion of sickness, disability, and activity limitations that afflict the elderly may require drawing on these resources more readily. From that perspective, $60,000 in net wealth may not stretch very far to cover the costs of necessary supplementary care that is not provided through the public health care system.

The generally high averages for elderly people also conceal the fact that significant numbers of seniors have little or no wealth. More than one in five seniors in Canada has wealth of less than $30,000, and 15.4% own less than $15,000 in wealth. Even that very modest wealth may consist primarily of a house or car that is not easy to convert to cash in times of need.[224]

[222] Ibid., pages 43–47.
[223] Ibid., Appendix C, page 44.
[224] Ibid., Table V-5, page 47.

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