FRASER RESEARCH BULLETIN

FRASER INSTITUTE

February 2020

Interest Costs and their Growing Burden on Canadians

by Jake Fuss and Milagros Palacios

Summary

- In recent years, deficit spending and growing government debt have become a trend for many Canadian governments. Like households, governments are required to pay interest on their debt. These interest payments consume resources that could have been used for tax relief or for health care, education, and social services.

- On aggregate, the provinces and federal government are expected to spend $54.8 billion on interest payments in 2019-20. For a Canadian family of four, interest costs will translate to an average of $5,830.

- Residents in Newfoundland & Labrador face by far the highest combined federal-provincial interest payments per person ($3,343). Ontario, Canada's most populous province, is the next highest at $1,550 per person.

- At the federal level, the amount that will be spent on interest payments in 2019-20 ($24.4 billion) is higher than what the government expects to spend on Employment Insurance benefits ($19.3 billion) and the Canada Child Benefit ($24.1 billion).

- Ontarians are projected to spend $22.6 billion on combined federal and provincial interest costs in 2019-20, which is more than the province receives from the Canada Health Transfer (CHT) and the Canada Social Transfer (CST). Meanwhile, total expenditures on interest costs for Albertans ($6.4 billion) and British Columbians ($5.9 billion) are more than what each province expects to spend on social services this year.

Introduction

In recent years, deficit spending and growing government debt have become a trend for many Canadian governments. Persistent deficits are now the norm for governments in Alberta and Ontario, while the federal government has increased spending and debt considerably over the last decade. Indeed, combined federal-provincial net debt is expected to reach a record high \$1.5 trillion in 2019-20. It is expected that this trend will continue for the foreseeable future, as governments across the country plan to continue adding to their debt burdens.

This accumulation of government debt is not costless, however. It has immediate consequences. Like households, governments are required to pay interest on their debt. These interest payments consume resources that would otherwise be used for public priorities that would help families or improve Canada's economic competitiveness. As a result, less revenue is available for tax relief or to support health care, education, and social services.

This research bulletin examines the current level of government spending on interest payments in order to put these costs into perspective for Canadians. In particular, it highlights the financial burden that interest costs place on families and shows the amount of revenue being spent to service the debt in comparison to other government budget items.

Current interest payments

The growth in government debt since the 2008-09 recession requires Canadian governments to spend billions of dollars on interest costs each year. Interest payments are now a considerable budget expense for the federal and many provincial governments. Table 1 displays the expected amount of interest that Canadian governments will pay in 2019-20. The table also shows those interest payments as a percentage of total government revenues for the federal and provincial governments. This highlights the share of government resources directed to interest costs and provides a sense of their significance compared to other priorities.

Table 1: Federal and Provincial Interest Costs, 2019-20

	Interest costs (in millions of \$)	Interest costs as a percent of revenue (%)
BC	2,701	4.6
AB	2,265	4.5
SK	669	4.4
MB	1,088	6.4
ON	12,905	8.3
QC	7,741	6.6
NB	658	6.6
NS	839	7.5
PE	126	5.7
NL	1,395	13.5
FED	24,400	7.2
Total	54,787	7.0

Note: Interest costs for 2019-20 are based on the latest government projections available at the time of writing.

Sources: Canada, Department of Finance (2019a); Alberta, Ministry of Finance (2019); British Columbia, Ministry of Finance (2019); Saskatchewan, Ministry of Finance (2019); Manitoba, Ministry of Finance (2019); Ontario, Ministry of Finance (2019); Québec, Ministère des Finances (2019); New Brunswick, Department of Finance (2019); Nova Scotia, Department of Finance (2019); Prince Edward Island, Department of Finance (2019); RBC Economics (2019); calculations by authors.

Table 2: Combined Federal and Provincial Interest Costs, 2019-20

	Provincial interest costs ($ millions)	Federal portion of interest costs ($ millions)	Combined interest costs ($ millions)	Combined interest costs per person
BC	2,701	3,160	5,861	1,156
AB	2,265	4,151	6,416	1,468
SK	669	752	1,421	1,210
MB	1,088	704	1,792	1,309
ON	12,905	9,676	22,581	1,550
QC	7,741	4,526	12,267	1,446
NB	658	365	1,023	1,317
NS	839	492	1,331	1,370
PE	126	68	194	1,236
NL	1,395	348	1,743	3,343

Sources: Table 1; Canada Revenue Agency (CRA), 2015-2019; Statistics Canada (2019a); calculations by authors.

Note: The combined federal and provincial interest cost is a total of provincial interest costs and the federal portion. The federal interest cost is allocated to each of the provinces based on a 5-year average (2013-2017) of the net federal tax payable by provinces as a share of Canada's total net federal tax payable.

Federal interest payments are expected to reach $24.4 billion, or 7.2% of total federal revenues, in 2019-20. In other words, the federal government is currently spending about 7 cents of every dollar in revenue on interest payments.

Among the provinces, current projections suggest Newfoundland & Labrador will dedicate the largest percentage of its revenue to interest payments at 13.5%. Ontario is expected to come in second by spending 8.3% of its provincial revenues on interest payments—an astounding $12.9 billion expense. Four other provinces (Manitoba, Quebec, New Brunswick, and Nova Scotia) are projected to spend 6.0% or more of their revenues on interest payments in 2019-20. In aggregate, the provinces and federal government will spend $54.8 billion on interest payments this year.

It is also important to mention that these interest payments come at a time when governments are able to borrow at very low interest rates. Should interest rates rise in the near future, the cost of borrowing would subsequently rise as well.[1] Under those circumstances, even more resources would need to be directed towards interest payments while governments with high debt levels, such as Ontario and Quebec, would be exposed to substantial risk.[2]

[1] This would be a gradual change which would occur as debt is rolled over. If both interest rates and debt grow, then expenditures on interest payments will grow in government budgets as well.

[2] Ontario and Quebec are the most indebted provinces in dollar terms. In 2019-20 Ontario's net debt amounts to $353.7 billion (or 39.9 percent of GDP) and Quebec's net debt is $172.5 billion (or 37.8 percent of GDP).

Burden on Canadians

Federal and provincial interest payments are ultimately paid by Canadians in the form of taxes. Table 2 shows the combined federal and provincial interest costs in total dollars and per person for 2019-20 for each province. Federal interest payments were allocated to the provinces based on a 5-year average (2013-17) of the net federal tax payable by provinces as a share of Canada's total net federal tax payable.

Residents in Newfoundland & Labrador face by far the highest combined per-person federal-provincial interest payments ($3,343). Ontario, Canada's most populous province, is the next highest at $1,550 per person—representing $22.6 billion in total annual interest payments. In contrast, British Columbians face the lowest per-person interest costs in the country ($1,156). These values make it clear that growing government debt is now a substantial burden for Canadian taxpayers to bear.

Table 3: Total Interest Costs for a Family of Four, 2019-20

	Interest costs for family of 4 ($)
BC	4,623
AB	5,871
SK	4,840
MB	5,235
ON	6,201
QC	5,783
NB	5,270
NS	5,479
PE	4,945
NL	13,371

Sources: Table 2; calculations by authors.

Table 3 shows the total interest costs that a family of four is expected to pay for 2019-20 in each province. Annual interest payments for these families range from a low of $4,623 in British Columbia to a high of $13,371 in Newfoundland & Labrador. In seven provinces, a family of four will effectively pay over $5,000 in interest costs this year. On average, interest costs for a Canadian family of four translates to $5,830.

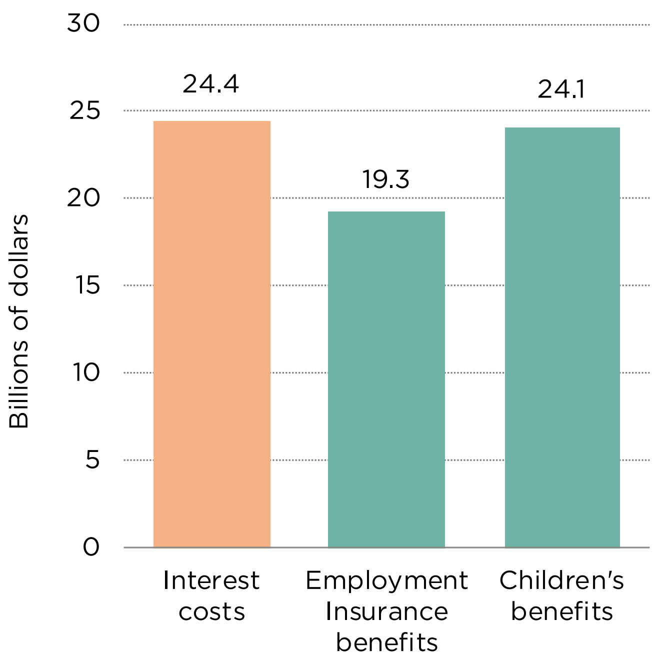
Notably, however, interest payments incurred by local governments are excluded from these numbers.[3] Generally, local governments are unable to accumulate much debt because provinces place regulations and restrictions on local government debt. However, local interest costs did account for roughly 5 percent of total government interest expenses in Canada in 2018-19 (the latest year of available data). Once local interest costs are included, total interest payments in Canada increase by billions more.

Interest costs in perspective

When interest costs rise, fewer resources remain for tax relief and important public programs. To put this into perspective, interest costs will now be compared with other government spending initiatives, sources of government revenue, and other budgetary items. In addition to exploring the federal government and the country as a whole, this section will provide comparisons for the four most populous provinces (Ontario, Quebec, Alberta, and British Columbia).

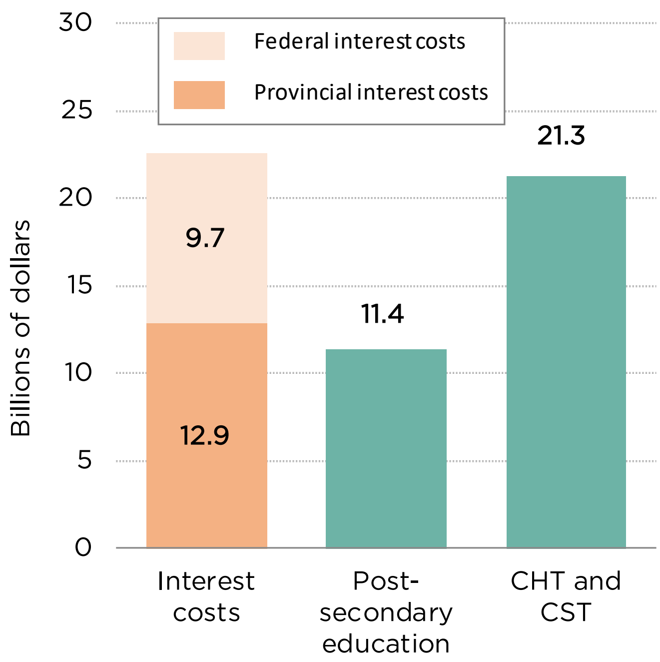
[3] Public Accounts data for federal and provincial interest costs are not directly comparable to the Statistics Canada data pertaining to local interest costs. However, Statistics Canada data indicate that local governments incurred $3.2 billion in interest expenses in 2018-19 (the latest year of available data).

Figure 1: Federal Interest Costs Compared to Other Expenditures, 2019-20



Source: Canada, Department of Finance (2019a).

Figure 2: Ontario's Federal and Provincial Combined Interest Costs Compared to Other Budget Items, 2019-20



Sources: Table 2; Ontario, Ministry of Finance (2019); calculations by authors.

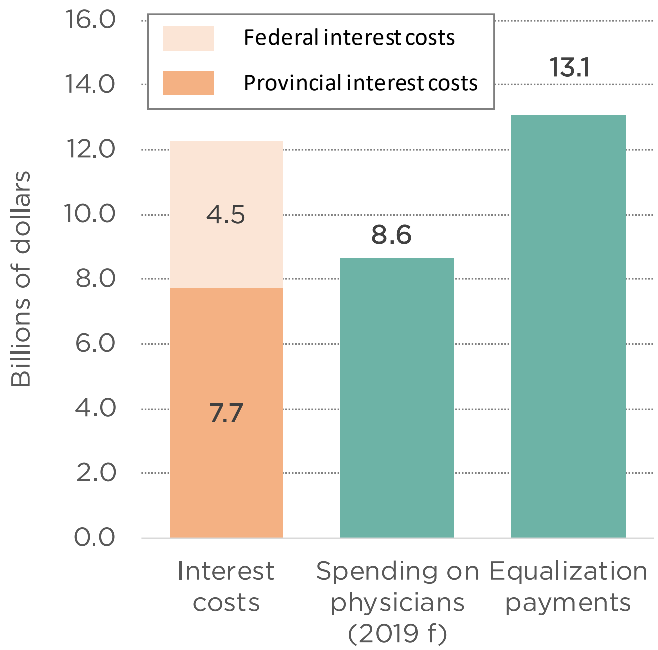
Federal interest costs

For the federal government, interest expenses are expected to equal $24.4 billion in 2019-20 (Canada, Department of Finance, 2019a). To illustrate the magnitude of this cost, figure 1 shows how this compares to other spending items in the federal budget. For instance, the amount spent on interest payments this year is considerably larger than the $19.3 billion the federal government expects to spend on Employment Insurance benefits. Federal interest costs are also higher than spending on the Canada Child Benefit (CCB). Clearly, more resources are being directed towards interest costs than to some key public programs.

Interest costs in Ontario

In 2019-20, the Ontario government will spend $12.9 billion on interest costs alone. This is $1.5 billion more than what the province spends on post-secondary education ($11.4 billion) and translates into more than $1 billion in interest costs each month (Ontario, Ministry of Finance, 2019). Debt is expected to continue rising for the foreseeable future, which means that interest costs are likely to increase further compared to other spending items. According to the 2019 provincial budget, interest costs are projected to grow at an average annual rate of 4.9 percent between 2017-18 and 2021-22. In contrast, annual growth rates on spending for health care and education are expected to be

Figure 3: Quebec's Federal and Provincial Combined Interest Costs Compared to Other Budget Items, 2019-20



Sources: Table 2; Québec, Ministère des Finances (2019); CIHI (2019); Statistics Canada (2019b); Canada, Department of Finance (2019c); calculations by authors.

2.5 percent and 2.1 percent, respectively. Put simply, interest costs are the fastest growing line item in the Ontario budget.

Ontarians are also responsible for paying a portion of the federal interest costs. The combined federal-provincial interest costs for Ontario will total $22.6 billion in 2019-20 (see figure 2). This is more than the total $21.3 billion the Ontario government receives from both the Canada Health Transfer (CHT) and the Canada Social Transfer (CST). It also represents over 80 percent of the amount Ontario collects from the Harmonized Sales Tax ($28.1 billion) (Ontario, Ministry of Finance, 2019).

Interest costs in Quebec

The Quebec government expects provincial interest costs will equal $7.7 billion in 2019-20 (Québec, Ministère des Finances, 2019). Provincial interest expenses are projected to be nearly equivalent to the amount Quebec spends on physicians ($8.6 billion in 2019) (CIHI, 2019). However, Quebeckers are also responsible for $4.5 billion in federal interest costs. This allocation means that total interest payments paid by Quebeckers this year could amount to $12.3 billion (figure 3). That is nearly what the province collected in equalization payments ($13.1 billion) in 2019-20.

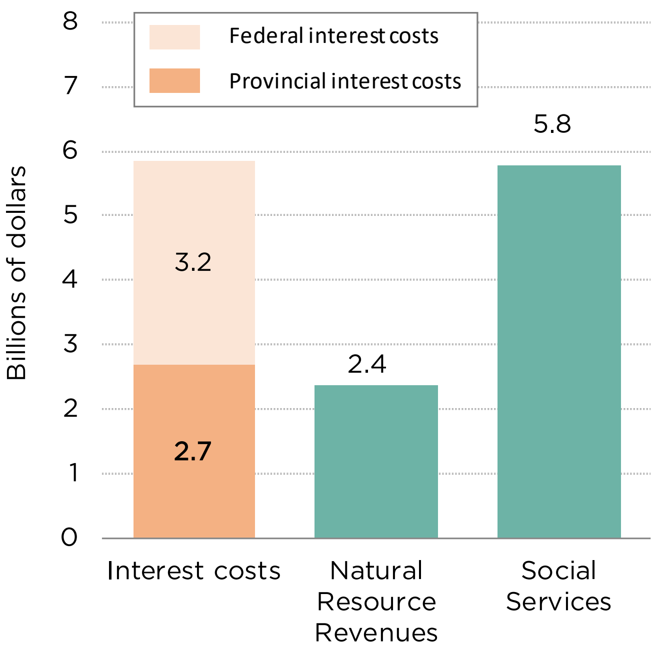
Interest costs in British Columbia

Even though British Columbians face one of the lowest debt burdens in the country, interest costs are still a considerable expense for the provincial government. Figure 4 shows that the BC government expects to spend $2.7 billion on interest payments in 2019-20. This is more than what the province collects from natural resource revenues ($2.4 billion) or from post-secondary fees ($2.4 billion) (British Columbia, Ministry of Finance, 2019). The province's share of federal interest costs ($3.2 billion) increases the total interest bill for British Columbians to $5.9 billion. Overall interest expenses for BC are comparable to what the province expects to spend on social services this year ($5.8 billion).

Interest costs in Alberta

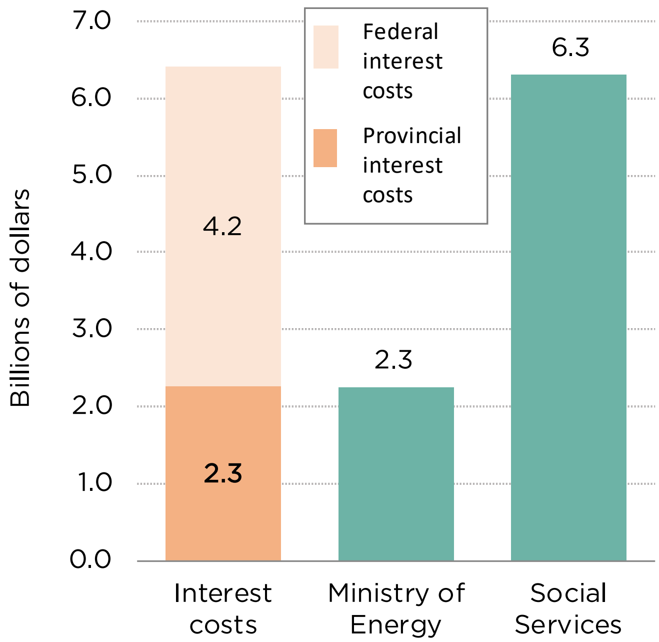
Recently, interest costs have been rising rapidly in Alberta. From the 1990s to mid-2000s, the province substantially reduced debt (and eventually eliminated it). However, the province's financial health deteriorated significantly in 2016-17 when debt once again began to accumulate during an economic recession. In a rela-

Figure 4: British Columbia's Federal and Provincial Combined Interest Costs Compared to Revenues, 2019-20



Sources: Table 2; British Columbia, Ministry of Finance (2019); calculations by authors.

Figure 5: Alberta's Federal and Provincial Combined Interest Costs Compared to Other Expenditures, 2019-20



Sources: Table 2; Alberta, Ministry of Finance (2019); calculations by authors.

tively short time, the province's annual interest costs grew from less than $1 billion in 2015-16 ($776 million) to nearly $2.3 billion in 2019-20. Spending on interest payments this year is equivalent to the amount the province expects to spend through its ministry of energy (see figure 5). Interest costs are likely to grow further in future years, as the Alberta government expects to continue increasing debt and spend more than $3 billion on annual interest expenses by 2022-23 (Alberta, Ministry of Finance, 2019).

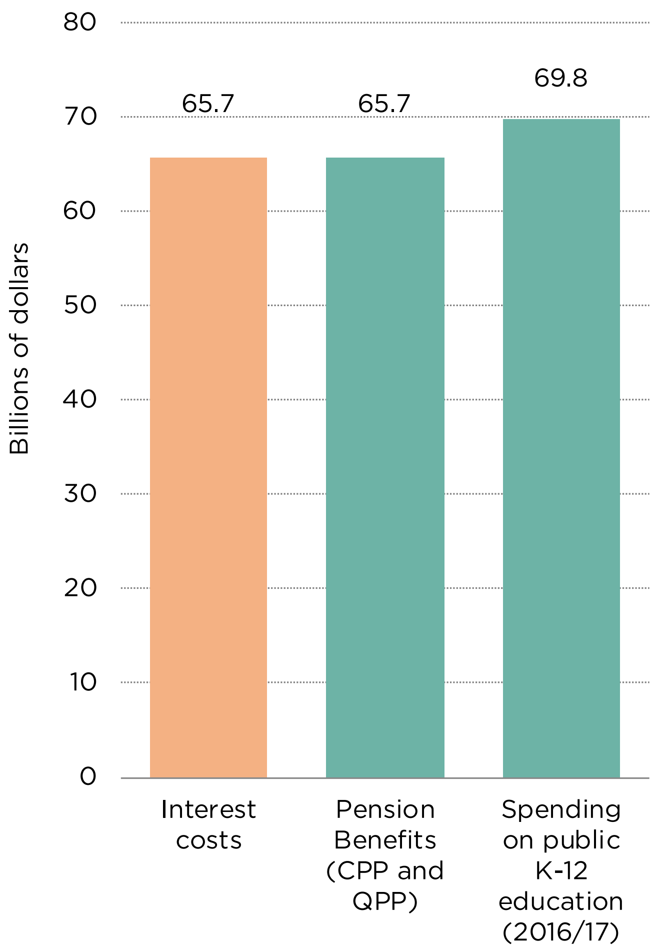
After accounting for the province's portion of federal interest costs, the combined federal-provincial interest costs in Alberta amount to $6.4 billion in 2019-20. Figure 5 shows the magnitude of total government interest payments in Alberta compared to the province's other budget items. The $6.4 billion expenditure on interest costs is more than what Alberta's government expects to spend on social services ($6.3 billion) or funding for post-secondary institutions ($5.8 billion) this year (Alberta, Ministry of Finance, 2019).

Overall interest costs[4]

In total, interest costs for Canadian governments (federal, provincial, and local) amount-

[4] Data discussed in this section come from Statistics Canada. As mentioned earlier, these data are

Figure 6: Consolidated Government Interest Costs Compared to Other Expenditures, 2018-19



Notes:
a) Public elementary and secondary school education expenditures are for 2016-17, the most recent year available.
b) Pension benefits for the CPP and QPP are the social benefits as defined by government finance statistics, which are payments to protect people against certain social risks. For more information, see: http://www23.statcan.gc.ca/imdb-bmdi/document/5174_D4_T9_V1-eng.pdf.

Sources: Statistics Canada (2019b and 2019c); Service Canada (2019).

ed to $65.7 billion in 2018-19 (the latest year of available data). As figure 6 illustrates, this is equivalent to the amount spent on pension benefits ($65.7 billion) acquired through the Canada and Quebec Pension Plans (CPP and QPP). It is also just under the amount spent on public K-12 education in Canada ($69.8 billion in 2016-17, the latest year of available data). These comparisons enable us to demonstrate the scale of interest costs across the country. They also provide a sense of the extent to which debt accumulation diverts resources away from important public priorities.

Conclusion

This bulletin shows that deficit spending and growing government debt comes at a substantial cost to Canadians. More resources are typically directed to interest payments when government debt rises. This is money that has been shifted away from important public priorities like tax relief and spending on health care, education, and social services. A family of four in Canada currently pays nearly $6,000 in combined federal and provincial interest costs each year—and this bill is expected to continue growing for the foreseeable future. The upcoming budget season is an opportunity for Canadian governments to begin reversing the trend of growing debt and interest costs, which have adverse consequences for Canadian families.

References

Alberta, Ministry of Finance (2019). *Budget 2019*. Government of Alberta. <https://open.alber-

not comparable to the combined federal-provincial data illustrated earlier, which come from the Public Accounts.

ta.ca/dataset/budget-2019-a-plan-for-jobs-and-the-economy>, as of November 18, 2019.

British Columbia, Ministry of Finance (2019). *Making Life Better: Second Quarterly Report November* 2019. Government of British Columbia. <https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/government-finances/quarterly-reports/2019-20-q2-report.pdf>, as of November 18, 2019.

Canada, Department of Finance (2019a). *Economic and Fiscal Update* 2019. Government of Canada. <https://www.budget.gc.ca/efu-meb/2019/docs/statement-enonce/efu-meb-2019-eng.pdf>, as of December 23, 2019.

Canada, Department of Finance [DoF] (2019). *Fiscal Reference Tables* 2019. Government of Canada. <https://www.canada.ca/content/dam/fin/publications/frt-trf/2019/frt-trf-19-eng.pdf> , as of January 20, 2020.

Canada, Department of Finance (2019c). *Major Federal Transfers: Federal Support to Provinces and Territories*. Government of Canada. <https://www.fin.gc.ca/fedprov/mtp-eng.asp>, as of November 18, 2019.

Canada Revenue Agency (2015-2019). *Final Statistics (T1 Data)*. Canada Revenue Agency.

Canada Revenue Agency (2019). *Preliminary Statistics—2019 Edition (2017 Tax Year)*. Canada Revenue Agency.

Canadian Institute for Health Information [CIHI] (2019). *National Health Expenditure Trends*, 1975-2019. Canadian Institute for Health Information. <https://www.cihi.ca/en/national-health-expenditure-trends-1975-to-2019>, as of November 25, 2019.

Manitoba, Ministry of Finance (2019). *Budget* 2019: *Getting the Job Done*. Government of Manitoba. <https://www.gov.mb.ca/asset_library/en/budget2019/budget.pdf>, as of November 18, 2019.

New Brunswick, Department of Finance (2019). *Fiscal and Economic Update Second Quarter* 2019-2020. Government of New Brunswick. <https://www2.gnb.ca/content/dam/gnb/Departments/fin/pdf//2019-2020Second-QuarterReport.pdf>, as of November 18, 2019.

Nova Scotia, Department of Finance (2019). *December 2019 Budget Forecast Update*. Government of Nova Scotia. <https://notices.novascotia.ca/files/budget-forecast-notices/Budget-Forecast-December-2019.pdf>, as of December 23, 2019.

Ontario, Ministry of Finance (2019). 2019 *Ontario Economic Outlook and Fiscal Review*. Government of Ontario. <https://budget.ontario.ca/2019/fallstatement/pdf/2019-fallstatement.pdf>, as of December 23, 2019.

Prince Edward Island, Department of Finance (2019). *Second Quarter Forecast* 2019-2020. Government of Prince Edward Island. <https://www.princeedwardisland.ca/sites/default/files/publications/q2_fiscal_update2019_0.pdf>, as of December 23, 2019.

Québec, Ministère des Finances (2019). *Update on Québec's Economic and Financial Situation* Fall 2019. Government of Québec. <http://www.finances.gouv.qc.ca/documents/Autres/en/AUTEN_update.pdf>, as of November 18, 2019.

RBC Economics (2019). *Newfoundland & Labrador Budget* 2019. RBC Economics. <http://www.rbc.com/economics/economic-reports/pdf/canadian-fiscal/nlbud2019.pdf>, as of November 18, 2019.

Saskatchewan, Ministry of Finance (2019). 2019-20 *Mid-Year Report*. Government of Saskatchewan. <https://publications.saskatchewan.ca/#/products/103440>, as of December 23, 2019.

Service Canada (2019). *Quarterly Report of Canada Pension Plan and Old Age Security Monthly Amounts and Related Figures – October to December 2019*. Government of Canada. <https://www.canada.ca/en/employment-social-development/programs/pensions/pension/statistics/2019-quarterly-october-december.html> as of November 18, 2019.

Statistics Canada (2019a). *Table 17-10-0005-01: Population Estimates on July 1, by Age and Sex*. Government of Canada. <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1710000501>, as of November 18, 2019.

Statistics Canada (2019b). *Table 10-10-0015-01: Statement of Government Operations and Balance Sheet, Government Finance Statistics (x 1,000,000)*. Government of Canada. <https://www150.statcan.gc.ca/t1/tbl1/en/cv.action?pid=1010001501>, as of November 18, 2019.

Statistics Canada (2019c). *Table 37-10-0066-01: Public and Private Elementary and Secondary Education Expenditures (x 1,000)*. Government of Canada. <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=3710006601>, as of November 18, 2019.

Acknowledgments

The authors would like to acknowledge the past contributions of Charles Lammam, Hugh MacIntyre, Feixue Ren, and Sazid Hasan in previous versions of this study. Any remaining errors or omissions are the sole responsibility of the authors. As the researchers have worked independently, the views and conclusions expressed in this paper do not necessarily reflect those of the Board of Directors of the Fraser Institute, the staff, or supporters.

ISSN 2291-8620

Media queries: For media enquiries, please contact our communications department via e-mail: communications@fraserinstitute.org; telephone: 604.714.4582.

Support the Institute: call 1.800.665.3558, ext. 574 or e-mail: development@fraserinstitute.org

Visit our **website**: www.fraserinstitute.org

Jake Fuss *is a Policy Analyst at the Fraser Institute. He holds a Bachelor of Commerce and a Master's Degree in Public Policy from the University of Calgary.*

Milagros Palacios *is the Associate Director of the Addington Centre for Measurement at the Fraser Institute. She holds a BSc in Industrial Engineering from the Pontifical Catholic University of Peru and an MSc in Economics from the University of Concepción, Chile.*