To whom do we owe the federal debt and how much in interest do we pay them every year?

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by Jeff Bowes

Federal debt is mostly owed to investors who loaned money to the government and to federal employees for their future pensions. The interest on the debt costs us more than $20 billion each year, around half the amount the federal government collects in sales taxes.

To determine how much we owe to whom, we first need to account for all of the government's debt. In 2018, total federal government debt was $1.157 trillion, which might be more than you expected. The debt figure we hear most often (and the one you will find on the CTF's DebtClock.ca) is the accumulated deficit, which was $671 billion.

Accumulated deficit is total debt minus the value of all the government's assets, which were worth $486 billion. Since the government isn't likely to sell its airports, the Parliament buildings or Armed Forces vehicles to service the debt, we need to use the total debt figure to determine to whom we owe money.

Unless otherwise noted, all of the following figures are for 2018.

The largest category of debt is market debt. This is what we owe to the investors who lend money to the federal government. The government holds auctions throughout the year, selling bonds to fund its deficit spending and to refinance existing debt. Since the government isn't paying down the debt, it needs to issue new bonds to replace bonds whose terms have ended.

Investors are confident they will be repaid with interest, because the government's guarantee to pay is backed by its power to tax. Those investors are

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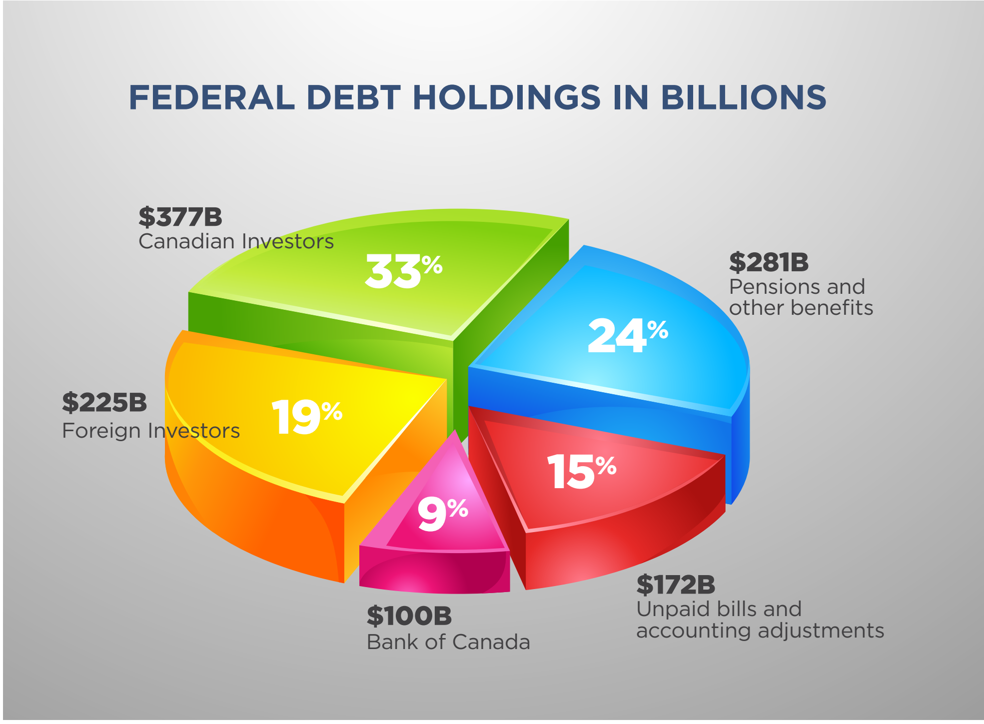
owed a total of $704 billion. The largest share, $331 billion, is owed to Canadian insurance companies, pension funds and financial institutions. The Bank of Canada is owed $100 billion and other Canadian investors are owed $46 billion.

Altogether, 68% of the federal market debt is held in Canada. Foreign investors hold the rest, $225 billion. The government doesn't provide a breakdown of who those foreign investors are, but their share has been steadily increasing, from 25% 20 years ago to 32% today.

> Despite all of this debt, the government has no plan to pay it back; it just keeps going up every year. In 2018, the federal debt rose above $1 trillion for the first time.



The next-biggest category of the federal debt is liabilities for pensions and other benefits. The unfunded liability is so large because before 2000, the government didn't set aside money to fund pensions. (The government still doesn't set aside funds for the pensions for federally appointed judges and members of Parliament.) In total, the debt owed for pensions and other benefits is $281 billion. Most of this is owed to current and former federal government employees; $171 billion is owed in pension payments to federal employees and $60 billion is owed to veterans.

Beyond what we owe to investors and government employees, the remainder is for an assortment of such things as unpaid bills and accounting adjustments. Unfortunately, there isn't enough information released about that remaining $172 billion to say to whom exactly we owe it. The details that are available show that accounts payable and certain other liabilities account for $155 billion. The remaining $17 billion is for market debt value adjustments and capital lease obligations.

Despite all of this debt, the government has no plan to pay it back; it just keeps going up every year. In 2018, the federal debt rose above $1 trillion for the first time. That year, the federal government paid $22 billion in interest at an effective rate of 2.2%. That $22 billion could have gone toward lower taxes.

However, it might get much worse, because interest rates are at historically low levels. If interest rates rise, the interest on the debt will cost a lot more.

Even though debt has gone up, interest payments have gone down, because of dropping interest rates. For comparison, if the government were forced to pay an interest rate of 6.9% as it did 20 years ago, the annual interest on the current debt would be $69 billion.

The government in fact paid $21 billion less in interest than it did 20 years ago, despite having much higher debt. Those interest rates savings should have made it easy for the government to balance the budget. The government could have used this era of low interest rates as an opportunity to pay down the debt. Instead, the government has spent all of the savings and more. At the same time as debt interest payments decreased by $21 billion, program spending has increased by $195 billion.

The ever-increasing debt and spending will have consequences. In the long run, there will inevitably be higher taxes just to pay interest on the debt.