

# Household Debt



## Noteworthy:

- Real household debt per capita grew by an average of 3.6% per annum from 1961 to 2003, surpassing the 2.1% per annum growth in real disposable income and the 2.2% per annum growth in real GDP per capita.
- Albertans are financially stressed with 23% reporting in a 1999 national survey that they would not have enough savings to last one month.
- We estimate the total of all debt (household, business, farm, and government) per Albertan in 1999 at \$56,170 (1998\$), this represents 152% of GDP.

## The Cost of Household Debt in Alberta: What is included?

- The cost of household debt servicing is based on an estimate of the interest payments on chartered bank consumer loans.
- We estimate the cost of household debt servicing in 2003 at \$6.7 billion on roughly \$70 billion (1998\$) in total outstanding household debt. This expenditure is roughly 5% of Alberta's 2003 GDP.

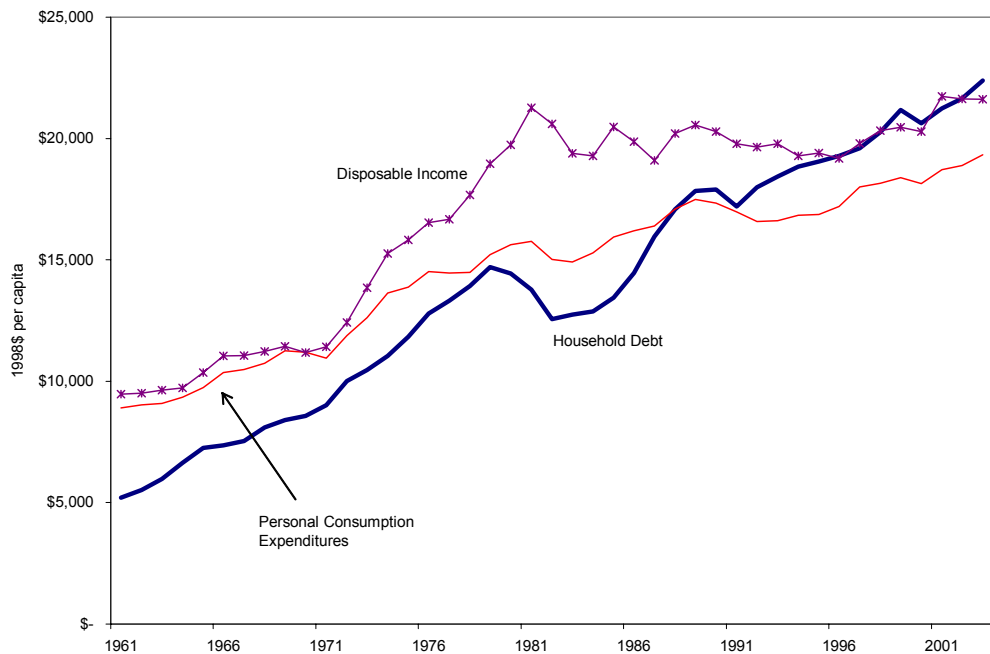
## Debt in Alberta: How Much?

Financial debt burdens individuals, households, students, businesses, farmers, and government. Debt financing fuels economic growth, investment and consumption by households, business and even governments. Genuine progress is made if the levels of debt do not become excessive in relation to disposable income and spending power. At the household and personal level, debt is soaring even as the Alberta Government has

eliminated its debt. For our analysis, we used Statistics Canada data for personal and household debt at the national level and estimated Albertans' share of this debt. Our analysis shows that household debt rose from \$5,204 per Albertan (1998\$) in 1961 to \$22,389 (1998\$) in 2003—a 330% increase. Per capita real disposable income increased only 128% over the same period. The average household debt per Albertan

has increased from 55% to 111% of real disposable income from 1961 to 2003. When we add Albertans' share of outstanding federal government debt, municipal government debt, and farm and business debt, the average total debt per Albertan in 1999 was \$56,170 (1998\$), or 275% of average per capita real disposable income.

### Alberta Household Debt vs. Disposable Income and Consumption Spending



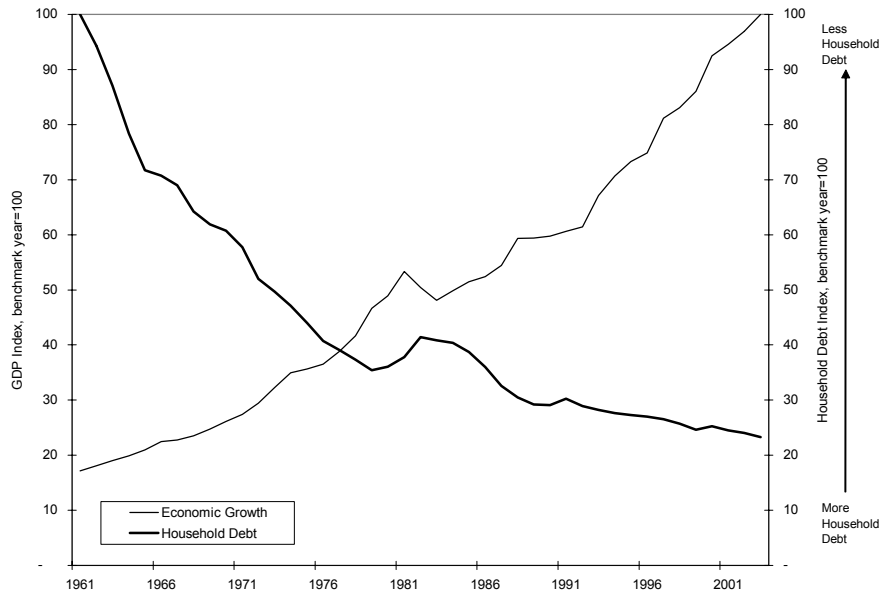
Source: Debt figures estimated for Alberta from Statistics Canada, Table 378-0003, National balance sheet, credit market summary; Expenditures and Disposable Income figures for up to 2002 from Alberta Economic Accounts (2003 data not yet publicly available).

# So What?

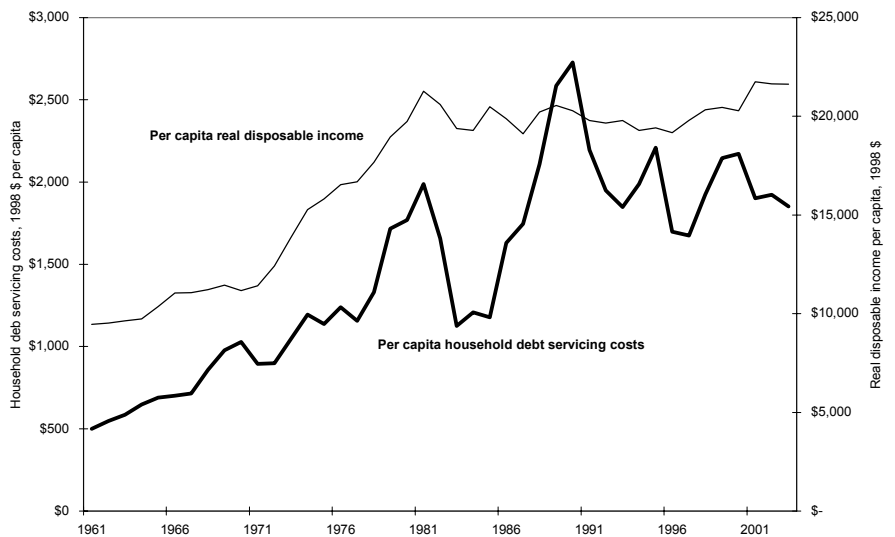
The GDP counts expenditures on debt servicing as additions to economic growth. In most cases, debt is a regrettable financial burden that diminishes the economic well-being of households, businesses and governments. The figure at the upper right shows that while GDP (as an index) continues to rise, the amount of household indebtedness (as an index) is also increasing. Do increasing levels of financial debt feed economic growth? Economists such as Herman Daly have identified that a basic growth bias is built into the economy by the nature of our debt-based money creation system, with total debt growing forever and being fundamentally unrepayable from current earnings.

The GPI accounts identify debt as detracting from genuine well-being. The figure at the lower right shows the real costs per capita of household debt servicing compared to real disposable income. Average real costs of household debt servicing in 2003 are estimated at \$6.7 billion, or \$1,851 per Albertan (1998\$). Total real debt servicing costs per capita increased 271% from 1961 to 2003 while real disposable income per capita only rose 128% over the same period. Government debt servicing detracts from economic well-being by diverting monies that could have been spent on public programs and services to enhance well-being. For example, roughly 29 cents on every tax dollar paid to the federal government in 1999 went to service the federal debt.

## Alberta Debt Index: Where are we today?



## Costs of Household Debt Servicing vs. Disposable Income, Alberta, 1961 to 2003



Source: Debt servicing costs were estimated by the authors using the average consumer loan rate of Chartered Banks applied to total personal and household debt estimates for Alberta (based on Statistics Canada national data; Table 378-0003: National balance sheet, credit market summary).

As an index, household (personal debt) per capita in Alberta in 2003 scored 23 on a scale of 0 to 100, where 100 is the lowest level of real household debt per capita that occurred between 1961 and 2003.

Household debt in 2003 was equal to \$70.7 billion (1998\$). The cost of servicing that debt was \$6.7 billion (1998\$) in the same year.

Including household, farm, municipal government, and business debt as well as Alberta's share of federal government debt, the total debt bill for 1999 was \$166 billion (1998\$).

