Winter 2021

In response to the COVID outbreak last year, many American and Canadian citizens sheltered at home, worked (or searched for work) from the couch, and…paid down their credit card debt? It may seem counterintuitive, depleting cash likely to be needed during an emergency, but it's true. According to the Federal Reserve Bank of New York, the second quarter of 2020 saw an incredible $76 billion drop in credit card balances (Americans continued to pay down credit card debt for a total of $120 billion through September and the trend continued through November). The second quarter decline was the biggest in two decades. Canadians, for their part, brought credit card balances down 12.3%, according to TransUnion Canada.

A big reason folks started holstering their credit cards? The US and Canadian governments whipped out theirs. The Federal Reserve Bank's report suggests that US federal aid ("Cares Act"), a $2.2 trillion economic bill that included $1,200 stimulus checks to individuals and $600 hikes in weekly unemployment benefits, played a big role in preventing "large-scale spikes in delinquency." The Canadian government set aside $27 billion in aid for individuals and businesses. When a crisis hit, the US and Canadian governments did what most of its citizens did not—took on huge amounts of debt.

For many individuals, this sounds alarms. You don't have to be a member of the Suze Orman fan club to know massive debt can be an Achilles heel to financial stability, let alone growing wealth. That, no doubt was on the minds of many of those who started paying off their Visas and Mastercards when the pandemic hit.

But those folks might have thought differently had they access to a "government credit card," which shames even the vaunted Amex Black. Imagine receiving an offer in the mail that allowed you to borrow, as the Canadian government does now, as low as 0.14% for one year, 0.39% for five years, and 1.29% for thirty years. Or, even better, the US government's current deal of 0.09%, 0.37%, and 1.69%, respectively. That means in the US, the interest cost to service the debt is just 1.6% of the GDP, even lower than last year, when the pandemic hit, and much lower than in the 1980s and 1990s, when interest cost was around 3%.

Most consumers would jump at such an offer. But wait, there's more! It's prudent for the US government to pay the debt in a timely fashion, for standing and stature, as well as, at a certain point (not now) the possibility of rising inflation. If they don't, however, there's no collection agency, no IRS involvement, no legal action, and no credit-rating worries. This is a slight simplification, of course, but remember Central Banks around the world hold more dollars than any other currency and continue to flock to buy US Treasury securities because there's no risk of default. They're the modern world's substitute for gold, which is why they continue to sell, despite low interest rates.

Think of the current spending spree, including that on the US's second $900 billion stimulus package, passed last month, and the one predicted for the first quarter of this year, as emergency money, paid for by the governments' "credit cards." And assume that increased spending will taper off as vaccines are distributed and the pandemic has ended.

But, of course, the national debt is made up of far more than those emergency aid packages. Much of the rest falls under the categories of medium- and longer- term spending and thus borrowing to finance. When national governments spend on military tanks and airplanes and roads and bridges, those items last many years, but the bulk of the cost needs to be paid on delivery. By borrowing long-term, governments are able to pay off bills over the useful life of the assets, just like individuals do with cars and homes. The same principle applies to government spending on education and healthcare. Educated and healthier people are more productive, adding to the economy's growth, just as taking out student loans affords individuals future opportunities to increase income. With the current interest rates, there are valid arguments to be made, though we won't make them here, now is a time to, gasp, spend even more on these types of items.

We certainly don't advocate for wild deficit spending by our respective governments. All things being equal, lower debt is almost always preferable. But the debts our countries currently hold are very manageable, at all-time low interest rates. This spree will end, and the Federal Reserve has signaled it won't raise short-term interest rates for the next three years, so inflation isn't an immediate concern. In fact, since the early 90s, it has stayed between 2% and 3% each year, regardless of whether federal government debt has increased or decreased, and even when the unemployment rate touched 3.5% early last year.

"Rising national debt" has become an emotionally charged concern, especially for those of us who think of that debt in terms of personal finances. While some parallels can be made between the two, the differences, and tools available to our governments to handle it when the moment is right, are enormous. "In different times, we'll fix the deficit," Treasury Secretary Mnuchin told reporters, and we agree. "This is not the time to worry about it."