Raising Interest Rates? Canada's Impending Household Debt Crisis

By Global Research News
Global Research, January 09, 2013

Region: Canada
Theme: Global Economy

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Late last year, TD bank chief economist Craig Alexander released a report stating "tighter mortgage rules should do the job of cooling Canada's hot housing market in the short term, but higher interest rates will be needed to return the market to saner levels".

For a longer lasting solution to the overheated market, Alexander said "Bank of Canada governor Mark Carney will need to hike interest rates to make borrowing more difficult and expensive. Interest rates simply cannot stay at current levels indefinitely". Mr. Alexander's main concern is the record level of debt the average Canadian consumer is carrying. By his estimation, raising interest rates is the way to decrease that indebtedness.

This banker treatise is questionable. First, it suggests that loan officers have no control over the amount of money they lend to a borrower. According to Mr. Alexander, low interest rates means that your local loan officer has no choice but to give you a bigger loan. The truth is the banks can simply adjust their credit 'scoring' system so that buyers with a certain disposable income qualify for loans that are less than they do now. The difference here is that this solution will actually decrease indebtedness, instead of increase it, which higher interest rates would do for anyone who has an existing loan coming up for renewal.

Another concern has to do with the fact that a main determinant of extending credit is the amount of the loan payment. If the bank feels you can pay $2,000 a month on a mortgage, then you generally qualify for the loan, if you have the right credit record and collateral.

In the first five years of that mortgage, because banks charge far beyond the quoted interest rate at the beginning of a mortgage, your monthly $2,000 dollars might average out so you pay off $1,000 in loan principal, and $1,000 in compounding interest charges to the bank. Raise the interest rates, and for a new loan, you might still qualify for the same $2,000 a month payment plan, all other things being equal. However, less of your loan payment would go to pay down the principal and more would go towards the compound interest charges of the bank. This would keep you in debt longer and not so coincidentally increase the profits of the bank.

It is worth noting here that the money your bank loans for a mortgage is created out of thin air at the push of a button. They do not lend the money of their depositors for this.

The only way higher interest rates decrease the overall debt is when they push a substantial number of individuals and businesses into bankruptcy. After these entities are financially and otherwise destroyed, their loans are written off, thereby bringing down the nation's debt. One can only guess why this destructive policy is advocated, rather than bringing down overall debt by the far less damaging method of gradually tightening lending requirements.

What is more, interest charges are built into just about every product and service available. Higher interest rates means businesses would have to charge more to recover their loan costs. This would again make for a tougher financial situation for the average consumer and business. For an extreme example of what can happen one only has to turn back the clock to the 1980s, when 20% interest rates destroyed many businesses and individual lives; the victim's only crime being a belief in the essential fairness and rationality of the financial system.

That our mainstream media can print information about raising interest rates as being the only way to decrease debt, without comment, shows just how compromised these corporations are. In essence, they are in a massive conflict of interest situation. Interlocking boards of directors and the financial industry have essentially subverted the news that most people rely on to make their democratic decisions.

The so-called right wing C. D. Howe institute joined in the chorus. It released a report averring that inflation rates were understated because of the way Statistics Canada measures this. The problem, says Philippe Bergevin, a senior policy analyst with the institute, is that the statistical agency calculates changes in the costs associated with owning a home, not the actual changes in the prices of homes sold. The article goes on to say "Low interest rate policy for extended periods is what got the world in a mess in the first place, Bergevin points out."

The only thing that Bergevin truly 'points out' is that we do not get good financial information from the mainstream media. Mr. Bergevin also suggests that loan officers and banks have no control over the amount of money they lend, which is untrue. However, Bergevin goes further and blames the last financial crash on low interest rates. There is no mention of the derivatives mess and other gambling by the banking industry that drove much of the last financial meltdown. Or that to facilitate this gambling, banks in the U.S. engaged in so-called NINJA loans, the acronym standing for no income, no job loans. In truth, a 16 year old clerk at the 7-11 would be deemed incompetent if they used such judgement.

Deeper than this, it is the design of the money itself that continually pushes booms and busts. The primary flaw is charging compound interest on newly created money. Without going into too much detail, this concept is confirmed by high school math. It is fact that compound interest is an example of an exponential formula. It is fact that exponential formulas are highly unstable and guaranteed to eventually crash whatever system they are mirroring. Beyond this, banks are causing even more problems because of what is really the mother of all gambling addictions.

Yet once again, it is the average consumer that is blamed for the problems created by the so-called experts. The reality is that if a person wants to stay informed about economic matters, they must step away from our mainstream information sources. Alternatively, one could take each aforementioned quote by the experts, reword it to mean the exact opposite, and thereby have a better understanding of the situation.

Dan Parker lives in Whitecourt, Alberta and for the past 10 years has published the only mass media print product in western civilization that tells the truth about the money *system. 5,500 copies of the monthly Community Advisor are mailed out to every individual and business in Whitecourt, with more copies dropped off at coffee shops, waiting rooms etc. All issues are available online at communityadvisor.net.*

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