British economist John Maynard Keynes was apparently proud of his middle name, or maybe so embarrassed about it that he decided to embrace it wholly. Innovative thought, and not his only one. During the Great Depression he also put forward an idea for which he will forever be famous. Keynes was a proponent of governments spending more heavily than usual during an economic downturn and less so in good times as means of providing the stimulus and curbing needed through the ebb and flow of large scale economies. The multiplier effect, he argued, would then expand the country's flow of business and job opportunities. Most people intuitively see the idea, but Keynesian's, believe in it more. This type of government involvement, along with aggressive tax reductions, is called “fiscal stimulus.”

Opponents, or those who lean away from so much of that sort of thing (there are almost no purists) argue that it:

- Nearly always mistimes the need (governments move at the speed of darkness);
- Is effectively buying the public's votes with the public's money;
- Gets so out of control that refinancing of government debt becomes an ever increasing cost of ongoing budgets. (Government interest payments don't create jobs);
- Is far less important than interest rate policy, which has a more dramatic and immediate effect on business activity, and allows the free market to play a bigger role in economic recoveries, and;
- Crowds out private investors by competing with entrepreneurs for business opportunities.

A very localized and smaller scale case in point is our city's purchase a few years ago of the high tech score board at the CN Centre. This was bought, in part, with the financial assistance of the Northern Initiative Development Trust. The Trust, which was funded mostly by government, describes itself as: “…a catalyst (for) stimulating economic growth through investments in grassroots, community-led projects.”

One might argue that although the scoreboard is a wonderful asset, and enhances the experience at a hockey game substantially, the Trust didn't need to be involved in the transaction. Any number of local private banks might have jumped at the opportunity to finance it on generous terms. The winning commercial bank might have celebrated the new loan with a bonus to its employee, who then might have spent that bonus at a local business and so on.

But most Keynesian ideas are rolled out on a national scale. And when a federal government rolls out massive spending programs in the midst of an already buoyant and thriving economy we might refer to them as Candy Keynesians, promising Christmas every day, and financing it on the national credit card. Keynes himself argued that spending would be reduced and budget surpluses garnered in good economic times, to pay for the deficits spent through the bad times.

Another way to stimulate the Economy is by intervening in markets to press interest rates lower, and to enable less restrictive borrowing regulations, thus easing access to new funding and spending. Because this impacts the money supply, it is called monetary policy, and is the purview of central banks. Key players (spenders) are consumers and businesses. But when consumers borrow too much, the economy is headed for a big hangover, as borrowing limits reach impenetrable limits. The follow stats, from RBC Economics, indicate some recent findings on this important metric.

Canadian households' high debt levels will shape 2018
It looks like household debt growth in Canada is finally moderating a bit. As the Bank of Canada (BoC) pointed out recently, household credit growth has slowed lately. With interest rates expected to rise further and housing regulations tightening at the federal and provincial level, the peak in debt growth could very well be behind us. That should be viewed as a positive development by the BoC, though progress will likely be very slow.

While more moderate household debt growth is a welcome development, policymakers will want to be sure they aren't hitting the brakes too hard. We got the slightest taste of what rising interest rates mean for house-hold debt service costs in Q4/17 and think a trend of gradually rising interest payments will become entrenched this year. Households shelling out a bit more to cover debt costs—and less attractive interest rates for big ticket purchases—will be a headwind for consumer spending this year. How highly indebted consumers react to rising borrowing costs remains a key uncertainty facing the BoC and one that will likely keep them cautious in raising rates.

Some Data Highlights:

• Aggregate household balance sheets improved in Q4/17 with net worth rising 2.1%.

• Household assets rose by 1.9% quarter-over-quarter thanks to strong equity market performance. Non-financial assets continued to rise at a more moderate pace as home prices came off the boil.

• Credit market debt rose 1.1% as both mortgage and non-mortgage debt increased at a similar pace.

• Credit market debt-to-assets and debt-to-net worth ratios retraced the previous quarter's increases, edging down to 16.3% and 19.6%, respectively. Both are just slightly above longer run averages.

• The household debt-to-disposable income ratio was little changed at 170.4%. The previous quarter's reading was revised down to 170.5% though that was still a record high.

• A previous release showed the household debt service ratio was little changed at 13.8% though the interest portion of payments rose by 0.1 percentage point of disposable income.

Mark Ryan is an Investment Advisor with RBC Dominion Securities Inc. (Member–Canadian Investor Protection Fund), and these are Mark's views, and not those of RBC Dominion Securities. This article is for information purposes only. Please consult with a professional advisor before taking any action based on information in this article. Mark can be reached at mark.ryan@rbc.com.