Canadian Banks – Good News

NEWSWEEK

From the magazine issue dated Feb 16, 2009

The legendary editor of The New Republic, Michael Kinsley, once held a "Boring Headline Contest" and decided that the winner was "Worthwhile Canadian Initiative." Twenty-two years later, the magazine was rescued from its economic troubles by a Canadian media company, which should have taught us Americans to be a bit more humble. Now there is even more striking evidence of Canada's virtues.

Guess which country, alone in the industrialized world, has not faced a single bank failure, calls for bailouts or government intervention in the financial or mortgage sectors? Yup, it's Canada. In 2008, the World Economic Forum ranked Canada's banking system the healthiest in the world. America's ranked 40th, Britain's 44th.

Canada has done more than survive this financial crisis. The country is positively thriving in it. Canadian banks are well capitalized and poised to take advantage of opportunities that American and European banks cannot seize. The Toronto Dominion Bank, for example, was the 15th-largest bank in North America one year ago. Now it is the fifth-largest. It hasn't grown in size; the others have all shrunk.

So what accounts for the genius of the Canadians? Common sense. Over the past 15 years, as the United States and Europe loosened regulations on their financial industries, the Canadians refused to follow suit, seeing the old rules as useful shock absorbers. Canadian banks are typically leveraged at 18 to 1—compared with U.S. banks at 26 to 1 and European banks at a frightening 61 to 1. Partly this reflects Canada's more risk-averse business culture, but it is also a product of old-fashioned rules on banking.

Canada has also been shielded from the worst aspects of this crisis because its housing prices have not fluctuated as wildly as those in the United States. Home prices are down 25 percent in the United States, but only half as much in Canada. Why? Well, the Canadian tax code does not provide the massive incentive for overconsumption that the U.S. code does: interest on your mortgage isn't deductible up north.

In addition, home loans in the United States are "non-recourse," which basically means that if you go belly up on a bad mortgage, it's mostly the bank's problem. In Canada, it's yours. Ah, but you've heard American politicians wax eloquent on the need for these expensive programs—interest deductibility alone costs the federal government $100 billion a year—because they allow the average Joe to fulfill the American Dream of owning a home. Sixty-eight percent of Americans own their own homes. And the rate of Canadian homeownership? It's 68.4 percent.

Canada has been remarkably responsible over the past decade or so. It has had 12 years of budget surpluses, and can now spend money to fuel a recovery from a strong position. The government has restructured the national pension system, placing it on a firm fiscal footing, unlike our own insolvent Social Security. Its health-care system is cheaper than America's by far (accounting for 9.7 percent of GDP, versus 15.2 percent here), and yet does better on all major indexes. Life expectancy in Canada is 81 years, versus 78 in the United States; "healthy life expectancy" is 72 years, versus 69. American car companies have moved so many jobs to Canada to take advantage of lower health-care costs that since 2004, Ontario and not Michigan has been North America's largest car-producing region.

I could go on. The U.S. currently has a brain-dead immigration system. We issue a small number of work visas and green cards, turning away from our shores thousands of talented students who want to stay and work here. Canada, by contrast, has no limit on the number of skilled migrants who can move to the country. They can apply on their own for a Canadian Skilled Worker Visa, which allows them to become perfectly legal "permanent residents" in Canada—no need for a sponsoring employer, or even a job. Visas are awarded based on education level, work experience, age and language abilities. If a prospective immigrant earns 67 points out of 100 total (holding a Ph.D. is worth 25 points, for instance), he or she can become a full-time, legal resident of Canada.

Companies are noticing. In 2007 Microsoft, frustrated by its inability to hire foreign graduate students in the United States, decided to open a research center in Vancouver. The company's announcement noted that it would staff the center with "highly skilled people affected by immigration issues in the U.S." So the brightest Chinese and Indian software engineers are attracted to the United States, trained by American universities, then thrown out of the country and picked up by Canada—where most of them will work, innovate and pay taxes for the rest of their lives.

If President Obama is looking for smart government, there is much he, and all of us, could learn from our quiet—OK, sometimes boring—neighbor to the north. Meanwhile, in the councils of the financial world, Canada is pushing for new rules for financial institutions that would reflect its approach. This strikes me as, well, a worthwhile Canadian initiative.

URL: http://www.newsweek.com/id/183670