Commentary

The Canadian Way of Saving

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Everyone complains that the U.S. savings rate is too low. To be sure, the way it is calculated is very flawed. It's basically income minus outgo. But that doesn't take into account such things as the growth of capital assets such as stocks, bonds, and real estate. Nor does it count as savings the portion of a monthly mortgage payment that is building equity rather than paying interest. Toward the end of a mortgage, most of the payment is building equity. As *Forbes* reported last month, American household wealth is a whopping $81.5 trillion.

But if the federal government would like to see a big increase in conventional savings, it should adopt a Canadian idea that has been a huge success there. The Cato Institute reports on a savings account in Canada known as a TFSA (for Tax Free Savings Account). Canadians can put up to $5,500 a year into these accounts, out of after-tax income. And, if they put in less one year, they can put in more next year. Say in 2014 you put in only $2,000. Then next year you could put in $9,000 ($3,500 plus $5,500). The account earns tax-free interest and can be tapped at any time, with no taxes due on withdrawal.

Only available since 2009, as of June 2014, there were 13.1 million TFSAs in existence, with deposits amounting to $131.5 billion. There are about 27.7 million adult Canadians, so that means that fully 47 percent of them have a TFSA account. The United States has a population ten times that of Canada. So, presumably, if we were to adopt a similar program, in five years 130 million Americans could have $1.3 trillion on deposit.

One reason for their popularity is their liquidity and flexibility. There are no complicated rules about penalties for withdrawals or paying taxes on the interest, as there are with the various IRA's and 401(k)s.

This is a very good idea. But, alas, Washington these days is where good ideas go to die.