debt will eventually reach $50 billion before the ratio of debt to gross domestic product starts to improve.

This is a good time, as everyone knows, to talk about the debt because officials from the Department of Finance have been meeting with Moody's, the bond rating agency in New York, to discuss a possible downgrading in Canada's rating. If the talks go badly and if Moody's ultimately downgrades our credit worthiness, the cost of borrowing money to service the debt will be even higher.

As has often been pointed out, the Liberal red book is silent on two questions: when will we eliminate the deficit and how will we then deal with the accumulated stock of Canada's debt?

A constituent of Don Valley West, financial analyst Ross Healy of Strategic Analysis Corporation in Toronto, has proposed a radical, elegant solution to Canada's debt problem called the Phoenix Rising Solution. At the heart of his proposal is an approach which is often used in corporate restructuring, cleaning up the balance sheet by converting excessive debt to equity. In this regard the Phoenix solution is conventional and even commonplace in the private sector, but for government the solution is unique, daring in the proposed scale of the financial offering and radical in its drastic alteration of government finances.

What is proposed is, in Healy's words:

> —an equity underwriting of up to $780 billion which will be used to pay down the indebtedness of the federal and provincial governments. The 'equity' used is a 30 year stream of tax revenues 'bundled up' such that there is sufficient present value to replace the indebtedness of the government. The new instrument we shall call the Canadian Phoenix Trust. Shares in the Canadian Phoenix Trust will be exchanged for current government indebtedness on a dollar for dollar basis. It is therefore a replacement of the existing debt with equity, as no 'new' capital is required for its success.

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Here are the details of the proposal. The federal and provincial governments sell the rights to a future stream of tax revenue to a tax free trust, the stream being large enough to create a present value of up to $780 billion, the total of all direct government federal and provincial indebtedness. Units of the trust would be swapped for existing debt obligations.

Using a 3.5 per cent nominal growth rate in gross domestic product and a 4.5 per cent tax free discount rate, it would require about 4.2 per cent of gross domestic product annually over 30 years to service and retire the $780 billion of equity so created. The moneys would come from existing tax revenues.

The cost of servicing current and provincial debts is about $60 billion annually and rising. As a result there would be an immediate saving of roughly 50 per cent in debt service costs. The moneys paid not only cover service costs but also amortize the full amount of the debt.

Like a mortgage, the blended annual payments of dividends and principal are paid every year, and trust income is a flat 4.2 per cent of Canadian gross domestic product for 30 years, the annual amounts growing in direct relation to the growth of GDP.

Two questions arise immediately. If such a scheme worked, what would be its advantage? Of course, most importantly, would such a scheme work?

First the advantages. Economists have calculated that the current high levels of Canadian government indebtedness constitute an enormous drag on the Canadian economy by crowding out private sector borrowers. These economists estimate Canada's gross domestic product would be between $110 billion and $140 billion greater per year without the debt.

Eliminating government debt would permanently lower Canada's interest rates, thereby improving the climate for innovation, investment and long–term growth.

With the government reducing costs of servicing the debt by 50 per cent, coupled with the existing budgetary measures proposed in February, Canada's federal deficit would be eliminated in two years, not simply reduced to 3 per cent of gross domestic product. The combination of stronger economic growth and future budgetary surpluses would allow governments to lower tax rates, thereby encouraging even stronger economic growth. The Phoenix solution would create a virtuous economic circle indeed.

The biggest question, of course, is can such a scheme work? More precisely, will investors buy? Why would investors swap their holdings of government bonds for Phoenix Trust units on a sufficient scale to make it worthwhile? In the words of Ross Healy and his associate, Enrico Sgromo: "Investors will swap if they feel that the Phoenix Trust units represent a good investment and the current Government of Canada bonds represent increasing risk because of the financial crises that the government finds itself in". Well, given the last and recent gloomy conversations with Moody's, at least the latter half of this proposition seems reasonable.

The major attraction for foreign investors in the short term is the very positive impact on the Canadian dollar, which would gain value immediately. Over the long term the participation in a growing economy with low interest rates would offer both foreign and Canadian investors the opportunity for major capital gains. The beauty of the Phoenix solution is that the better Canada does economically, the better investors do financially. When we succeed, they succeed.