

Banking's boldest



Ottawa

Vic Parsons

Central bankers are a breed apart.

The tumult may be rising all around, but they stay the course with a sangfroid that begs admiration, even if you don't like their policy. Both the Bank of Canada governor, John Crow, and his US colleague, Alan Greenspan, chairman of the Federal Reserve, have recently been feeling the heat for their high-interest-rate policy.

Public criticism of Crow is mounting, as exporters complain a strong Canadian dollar is slashing sales abroad, provincial premiers call for lower regional interest rates, and bankruptcies and mortgage rates rise. As for Greenspan, he's come in for a thrashing from no less a figure than US President George Bush.

The aim of both bankers is to thwart what they see as dangerous inflation. They argue this, in the longer term, would be a more serious blow to the economy than high interest rates today.

In Canada, Crow's policy has the apparent blessing of the federal government, but Greenspan's position is more precarious.

There's good reasons for that. Bush promised American voters there would be no new taxes. His biggest financial problem is the national deficit. Without new taxes, he must find money elsewhere to trim the debt.

The logical source is increased tax revenues from an expanding

economy. The trouble is that, in the short term, Greenspan's interest rates will choke off economic growth as businesses and individuals cut their investment and spending.

TOUGH MESSAGE

So, the new president had a message for Greenspan. "I don't want to see us move so strongly against fear of inflation that we impede growth," Bush said bluntly.

It's hard to imagine a Canadian government disagreeing so profoundly and publicly with the course set by the central bank. Even if the government had misgivings over Crow's policy, these would be expressed quietly.

Finance Minister Michael Wilson, by law, consults with the Bank of Canada regularly. But whatever is said at these sessions is not made public. What Canadians see is muted endorsement by the government of Crow's policy.

That's been the pattern ever since the infamous Coyne affair in the early 1960s. When John Diefen-

baker's government didn't like what the bank's governor, James Coyne, was saying and doing, it tried to fire him.

Coyne refused, at first, to resign. He finally quit, but not until he felt vindicated by lengthy debate in both the Commons and Senate.

The Coyne affair has had a sobering effect on government relations with the central bankers ever since.

Mind-you, the bank is still used as a whipping boy. In Coyne's day, and in Crow's, governments have taken credit for interest rates when they fall, and pinned them on the bank when they rise.

SALES TRIMMED

But what are the critics - and there are more each day - saying? Higher interest rates, especially relative to those in the US, bump up the dollar. That makes our goods more expensive to foreigners.

Higher rates in the US also eat into our sales by dampening business investment and produc-

tion in our export market.


Bigger interest charges increase the number of bankruptcies, already up markedly in 1988 over 1987, as companies can't cope with their debts.

These things mean more unemployment. And the Bank of Canada has already issued a study that says a jobless rate of less than eight per cent adds to inflation. With current unemployment at 7.6 per cent, and the bank's preoccupation with inflation, that does not augur well for jobhunters.

Mortgage burdens for homebuyers have risen. One banker says each one-per-cent rise in mortgages cuts 200,000 prospective buyers out of the market.


Despite this, Crow remains adamant that rates must stay up to combat what he sees as "broadly based inflationary pressures."

Will the government follow Bush's lead on the interest rate issue? Or will it use the customary Canadian caution? John Crow's preference would be business as usual.



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Many thanks to Mark Rowe, President Esquensing Historical Society who wrote this article. Next meeting, Wednesday, Feb. 8th at Knox Presbyterian Church, Georgetown, 7:30 p.m. John McDonald's "Slide Tour of Esquensing." All Welcome!


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