

the HERALD
Outlook

Broadbent can rest well now



Ottawa

Stewart MacLeod
Thomson News Service

If New Democratic Party Leader Ed Broadbent lost any sleep over charges that he cheated during the election campaign by dredging up eight-year-old quotations, he now can doze off in comfort.

The quotes he used have been updated.

We refer to comments made in 1980 by Laurent Thibault, head of the Canadian Manufacturers' Association - an organization that stoutly supports the free-trade agreement with the United States.

Mr. Broadbent, of course, is not a supporter of the deal and, during last fall's campaign, he argued strenuously that free trade would threaten Canada's social programs. To buttress his argument, he quoted Mr. Thibault as saying that free trade would force Canada to lower its taxes to U.S. levels and this would result in cuts to our social programs.

Mr. Thibault lost no time in crying foul. He said the quotes were a full eight years old and he scolded the NDP leader for not saying so. He left the clear impression that his views had changed in the meantime.

Prime Minister Brian Mulroney, claiming that free trade posed no threat whatsoever to Canada's social programs, was also critical of Mr. Broadbent for being less than candid about the quotations he was tossing at the electorate.

Well, if the NDP leader wants to bring his quotations up to date, Mr. Thibault has come to his rescue. The CMA head has produced 1989 comments that do nothing to support his contention that his views had changed since 1980.

BLAMES FREE TRADE

Some quotes from a letter that Mr. Thibault recently sent to Finance Minister Michael Wilson, who is preparing his new budget: "The Canada-U.S. free-trade agreement that we fought hard for

creates great opportunities but also makes it more urgent that we tackle the outstanding issues that affect our competitiveness.

"Since Canadian taxes are already high compared to our major competitors, the burden of reducing the deficit must fall largely on cutting expenditures.

"Because 60 per cent of program spending is tied up in statutory programs, with most of this on the social programs, this is the spending area that must be reduced."

Now, if that doesn't connect reduced social programs with the free-trade agreement, I don't know what would. And it's not the type of connection that Prime Minister Mulroney wants to hear as his government takes the paring knife to expenditures.

After going through a harrowing election campaign arguing that free trade is no threat to social programs, this letter from Mr. Thibault certainly doesn't make it easier to sell the expected cuts.

Mr. Thibault must shudder to think how many times his letter will be quoted in Parliament when it meets again next month - particularly if the government tampers with any of the major social programs, such as pensions and family allowances.

TO NEEDY

The association, in an accompanying brief submitted to the finance minister, said social payments should go only to those in "greatest need." Mr. Thibault added in an interview that "we're wasting a lot of that money on people who don't need it."

That's not a new argument. But we all recall the furore that arose when the government tried, back in 1985, to tamper with the universality of social programs. And that was before free trade was even mentioned.

Now, it will be virtually impossible for the government to do anything with social programs without the opposition pointing the finger directly at free trade. Liberal Leader John Turner built much of his campaign platform on the proposition that the agreement would endanger these programs "which Canadians hold so dear."

There seems to be little argument that the government must make a serious effort at deficit reduction. Virtually every business-oriented organization in the country is unanimous on this. And, from everything one hears around Ottawa, Mr. Wilson is deadly serious about trimming government programs.

The prime minister, in restructuring his cabinet, has put himself in charge of a special committee to screen all expenditures. There is no doubt many departments are going to feel some painful pinches.

But Mr. Mulroney is exceedingly anxious to distance all cutbacks from the free-trade agreement. After all he said about the safety of our present social programs, it's little wonder.

Mr. Thibault has certainly made the prime minister's task a great deal more difficult, if not impossible.

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"The only Farmer's Almanac prediction that came true was that its price would go up."

Inflation brings it out



Your Business
Diane Maley
Thomson News Service

Inflation seems to bring out the violence in people. Pierre Trudeau wanted to wrestle it to the ground, break its back. Brian Mulroney wants to crush it, smother it.

Inflation also excites our greed. Many homeowners in Toronto and Vancouver like it because it makes them wealthy, at least on paper. Is inflation really a bad thing, or are politicians and central bankers still fighting the last war?

Bravado grows in proportion to the time that has passed since the last scare. As time goes by, most people forget. Central bankers do not.

In the halcyon days of 1980, for example, few of us dreamed that the boom would end and hundreds of thousands of people would be thrown out of work. Although interest rates tended to be high in the 1970s, few imagined they would surpass 20 per cent. But in August, 1981, the prime business lending rate hit 22.75 per cent. For years afterward, people feared it would happen again.

Our fear made it easy for central bankers to manipulate the economy using interest rates. They would squeeze rates a big higher and people would stop buying and borrowing immediately; they would drop them and off we'd go on a borrowing binge.

FEAR RULES

While central bankers can influence rates, they cannot fix their direction. That is done by financial markets. Each time the "bond vigilantes" made their feelings known in the market, politicians heeled, promising to take the economy and the deficits firmly in hand.

Bond vigilantes are investors and traders who were burned by inflation and high interest rates during the 1970s; since then, at the faintest whiff of inflation, they have been selling the bonds they

have and refusing to buy new ones, forcing interest rates higher. Bond yields are key measure of long-term interest rates.

By 1986, though, people began to realize that the terrible recession of 1982 was over. Even the stock market crash of 1987 did not dampen the economy for long. Consumers went wild, particularly in the United States, buying cars and houses, running down their savings, borrowing money.

Now, after many false alarms, inflation seems to be rearing its ugly head again. Interest rates are rising so quickly that borrowers' heads are spinning and no one knows where it will all end.

Behind this sudden shock is the likelihood that North American inflation will come in at five or six per cent this year, high by recent standards but nothing like the 12-per-cent annual gain of 1981. Does a five-per-cent price rise justify a three or four percentage point spiral in interest rates?

Brian Mulroney seems to think so. "Once inflation takes hold, it's too late to deal with it. You've got to crush it and smother it before it gets out of hand," the prime minister told reporters last week.

RISE TO SPREAD

The prime business lending rate, now 12.75 per cent, could rise by another full percentage point in the next few weeks, in the opinion of Jeff Rubin, senior economist at Wood Gundy Ltd. in Toronto.

So far, short-term rates have been affected most. A key measure of this is the Bank of Canada rate, which is set each week a quarter of a percentage point above the yield on three-month government treasury bills. The central bank auctions bills to raise money for the federal government. A rising bank rate acts as a flag to chartered banks to raise their prime business lending rate, which in turn pushes up rates for consumer and mortgage loans.

Yet, a five-year mortgage loan cost 12.25 per cent last week, a half-point less than the prime. This odd situation, known as an inverted yield curve, will end in long-term rates rising and an economic slowdown setting in.

Where are they now?



Staff Comment

Brian MacLeod

The alma mater.

To those of us who toiled through four years of post-secondary education, the mere mention of our alma maters conjures up memories of late night essays over pots of coffee, pub crawls, long and not so long lectures, deadlines and familiar faces.

It's that last part, about the familiar faces, that prompts us to ponder our university contemporaries' ultimate destinies. When we're reminded of our alma maters we recall those faces and inevitably we might think, "I wonder what they're doing now..."

The other day when I received my copy of the alumni news in the mail (it even had my degree on the address card), I scanned it with curiosity.

It was at York University where I spent four years balancing a healthy social life with books.

So when I turned to the "Grad News" section I naturally perked up when I saw a few familiar names in the "Where are they now" pages.

Jonathan Balcombe. He was a pleasant fellow. Sociable, bright and a heck of a volleyball player. The type of guy you might expect to find putting wayward youths on the right path.

You know what he's doing now? He's in his second year of a PhD degree in Ethology at the University of Tennessee in Knoxville where he is studying the behavioral ecology of bats.

How on earth does anybody ever end up doing something like studying the behavioral ecology of bats?

Another pal, George Alexiou was a colorful chap who came to school in Canada to avoid spending time in the Greek army. An incredibly talented soccer player, George is now coaching a First Division soccer team in Greece. His claim to fame? He's proud to have gone to York because Greece's prime minister, George Papandreu was once a professor there.

Tom Eagles. A sports fiend who liked his beer. He's now a consultant at Seven-Eleven Employment Services in Willowdale filling positions in Toronto.

As far as glamor is concerned, I figure I fit in somewhere in the middle of these chaps in my chosen career.

But it's always nice to know that should I ever find myself at the mercy of federal unemployment insurance, I could always ring up good old Tom.

Berry's World
YOU'VE GOT TO BE KIDDING!
SHAKE HANDS?
AT THE HEIGHT OF THE FLU SEASON?

Tom Berry
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