

the HERALD Outlook

Deficit tops the agenda



Your Business
Diane Maley
Thomson News Service

The looming federal budget is focusing people's attention on economic matters to a degree not seen since the 1981-82 recession. The finance minister will bring down his budget April 27.

On the tip of every tongue is the deficit, something few of us had thought much about until recently. Suddenly, the deficit is the most dreadful thing.

We worry about recession, too, remembering how bad things got for some people less than a decade ago. While we worry, the economy chugs merrily along. Real estate prices have been booming in southern Ontario and on the West Coast and labor shortages are mounting in Ontario. For most of us, things have never been better.

If and when recession comes, it may be anti-climactic, provided it is not severe.

Meanwhile, economic experts are grappling with a new and unfamiliar world, trying to predict, with tools that are woefully outdated, what the future will bring. Or are the tools outdated?

NEW WAVE TEST

Dr. Ed Yardeni is one of the few who think they are. Chief economist with Prudential-Bache Securities in New York, Dr. Yardeni has become a bit of a celebrity lately because of his New Wave theory of economics. According to the economist, who at age 38 describes himself as a card-carrying member of the baby-boom generation, the future will be much like the past, only better.

Economy-wide recessions will be replaced by rolling recessions,

which hit one or two industries at a time. He traces the change to the increasingly integrated global economy. Global competitive forces will avert an inflationary boom: no boom, no bust.

Oposing Dr. Yardeni are those who hold more traditional economic theories. Proponents of the Old Wave say the current business cycle is a textbook example of the boom-bust phenomenon and recession is inevitable. Over the past week or so, Old Wave economists have moved out in front.

Inflation and interest rates have climbed relentlessly higher, the U.S. unemployment rate has hit its lowest point in 15 years and the North American economy has kept right on growing.

The race is not over, Dr. Yardeni says. He is open to the possibility that his New Wave theory will be disproved. "We aren't going to die for the cause," he says. Even so, he still believes the five-year outlook for the economy is bright.

"But that doesn't mean we expect that the New Wave will work every single day of the next five years. There can be nasty bumps along the happy trail to prosperity."

SAVINGS BOOM

In a nutshell, Dr. Yardeni believes that as the post-war baby-boom generation ages, we will save more and spend less. The old boom-and-bust economy will give way to slow but steady growth.

While his forecast is directed toward Americans, it may be even more applicable to Canadians. Historically, we are a cautious people, a nation of savers. For this, Finance Minister Michael Wilson should be grateful. After all, the Canadian people finance the federal budget deficit by buying Canada Saving Bonds, treasury bills and long-term bonds.

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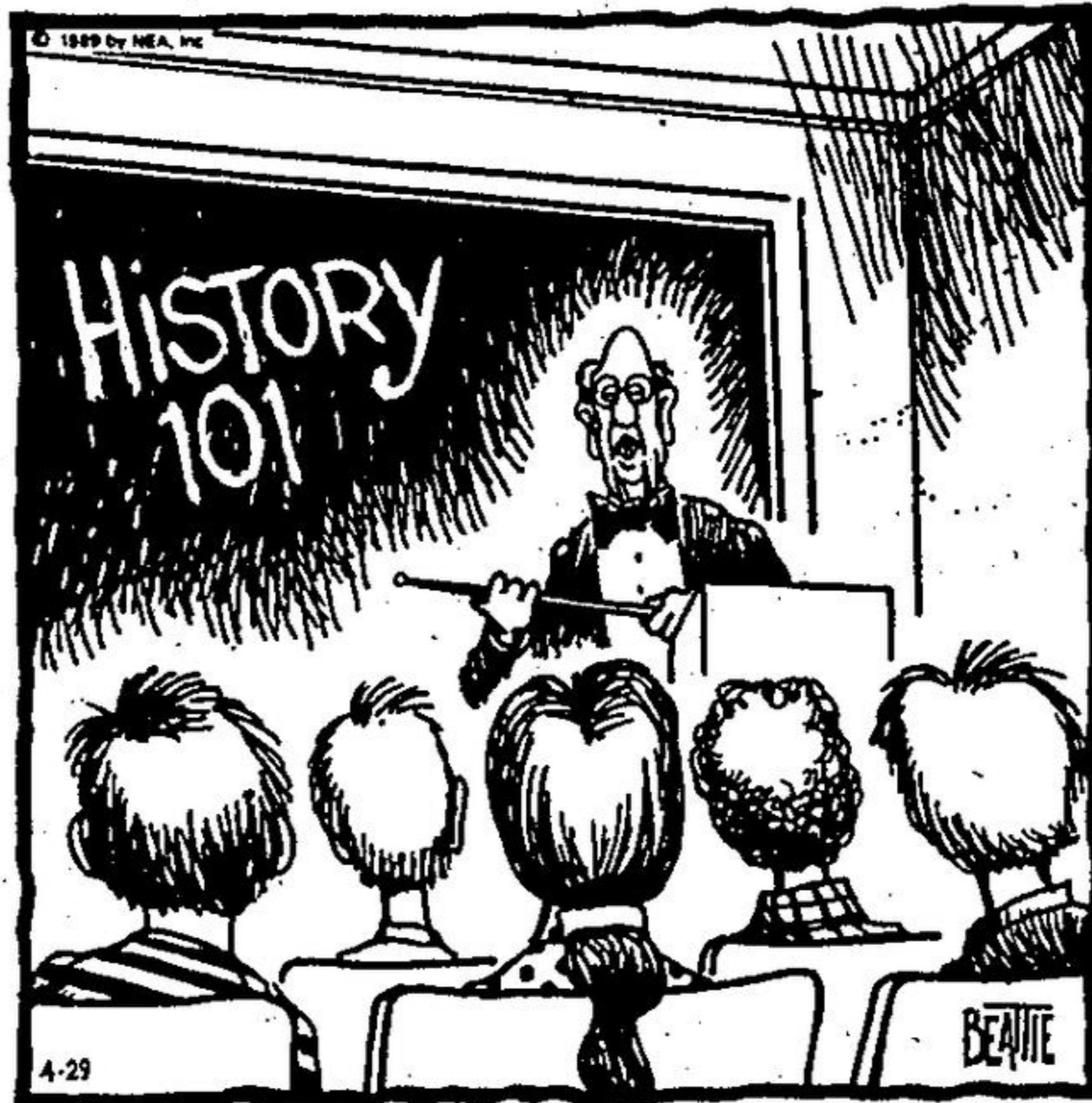
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Ottawa's clamoring for a new sales tax



Ottawa

Vic Parsons

Ottawa's ardor for a new national sales tax is rising.

Unfortunately for Finance Minister Michael Wilson, the object of his affection is still a lover's fantasy.

It's likely this romantic drama will continue for a while yet. When Wilson met with his provincial counterparts last week, they gave every indication that they intend to play coy.

Wilson's colleagues left last Friday's meeting, held after two years of talks among officials, agreeing to consider his proposal for a joint federal-provincial tax that would apply to a wide range of goods and services.

There's a broad spectrum of views among the provincial governments. Alberta's, as it made clear in its recent election, wants no part of a plan that would introduce a retail sales tax. It is the only province that does not levy a sales tax.

Ontario, on the other hand, is wavering. Provincial Treasurer Robert Nixon had said earlier than an expanded and revised sales tax would be of no benefit to Ontario.

But he seems to have discovered that the province could benefit to the tune of \$200 million. What profound philosophical changes are wrought by a little extra petty cash in the pockets! Now, Nixon will "consult" with his cabinet colleagues.

Quebec's Gerard Levesque wants more time.

MULRONEY JUMPS IN

At first, it appeared Wilson was carrying the load for sales-tax reform by himself. He had described the existing 12-per-cent federal manufacturers' tax as a "silent killer of jobs."

But now, Prime Minister Brian Mulroney seems to be putting emphasis on change.

During his participation in the throne speech debate last week, Mulroney diverted briefly from his talk of deficits and the Constitution

to plug sales-tax reform.

"The important part of our program is tax reform," Mulroney asserted, in a phrase that would have pleased but may have startled Wilson.

"Over time," the prime minister said, the current tax "has hampered our industries' competitiveness as they take on firms from around the world. And it is unfair in its impact on consumers."

And, of course, it will provide "a secure and reliable source of revenues."

This last phrase, coupled with the government's determination to reduce its deficit, reveals one motive for the earnestly desired reform.

Increased competitiveness is one potential benefit. But Wilson also has his heart clearly set on the windfall benefits for the treasury that could accrue with reform. Where it has been tried, a broadly based sales tax has apparently brought in unexpectedly large revenues.

BIG SOURCE

In recent years, Ottawa has come to rely more and more on the sales tax as a significant portion of its income.

A decade ago, the federal sales tax accounted for about 13 per cent of federal revenues. In the fiscal year just completed, it accounted for about 20 per cent, the second-largest source after personal income tax.

Wilson may have eroded the money-making capacity of a reformed tax with his promise to exempt groceries, prescription drugs and schools and hospitals.

But he recently gained an unexpected ally, who could help him escape that pledge. The Consumers' Association of Canada has suggested the government tax everything at a low rate. Tax credits could be used to help return some money to those less well off, supporters of this notion argue.

Wilson says Ottawa is prepared to go it alone with sales-tax reform if the provinces won't join the process. He wants a new system in place by the beginning of 1991.

This urge to proceed has received mixed reaction. Big business wants Wilson to go ahead now, with or without the provinces.

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Book Review

Canadians are still fascinated by WW I

By STEPHEN J. HARRIS

Seventy years after the event, Canadians are still fascinated by the First World War. At least that is the conclusion to be drawn from the appearance of so many books on the subject in the past few years.

Why this is so is not entirely clear. In the academic world, of course, the conflict has significance as a formative national experience that not only hastened Canada's transformation from colony to nation and broadened her industrial base, but also worsened tensions between English- and French-speaking communities. However, is the First World War really our popular counterpart to the American Revolution or Civil War as the conscious "stuff" of which the nation was made.

So why the fascination? Perhaps because the Canadian Corps was the finest army this country has ever put in the field. Perhaps because of personalities such as Sam Hughes and Billy Bishop. Perhaps because, even as wars go, 1914-1918 was particularly horrific. It saw the widespread use of poison gas and the first bombing of cities.

More poignantly and powerfully, it is also remembered as a conflict in which tens of thousands were killed and wounded in single days, and hundreds of thousands in drawn-out campaigns that achieved no palpable success - and as a war in which soldiers lived in conditions better suited to the slugs, rats, and lice with whom they shared their trenches. It is the stark horror of trench warfare, of human remains protruding grotesquely from parapets, or wounded men drowning in sludge, that stands out, and perhaps our fascination reflects awe at the fact that these things were actually endured.

If the visual image of the Great War has the most impact, its place in our national experience needs broader understanding. What better combination than a profusely illustrated book, *Marching to Armageddon: Canadians and the Great War, 1914-18* (Lester and Orpens Dennis, \$20 pages, \$35), by two of Canada's most prolific historians, Desmond Morton and J.L. Granatstein. The photographs, paintings, and posters selected are well-chosen and have been handsomely reproduced by the printers.

APPROPRIATE KICKS

As for the text, the authors have made good use of the latest research to evaluate not only Canada's military contribution, but also what took place at home. Along with politics and patronage, including appropriate kicks at Sam Hughes, they examine the organization of war industries, anti-war and anti-conscription sentiments in Quebec and rural Canada as a whole, and the rising influence of women.

-Dr. Stephen Harris is an historian with the Directorate of History, National Defence Headquarters, Ottawa, and author of *Canadian Brass: the Making of a Professional Army, 1866-1939* (University of Toronto Press, 1968).

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