

the HERALD Outlook

Less spending, yet more borrowing? What gives?



Diane Maley
Your Business
Thomson News Service

Something strangely mysterious is going on out there and ordinary people hold the key.

Consumer spending is down, housing starts are falling and auto sales have screeched to a halt. Yet, people are borrowing money hand over fist.

Personal loans are growing at an annual rate of 17.8 per cent, recent banking numbers show. Mortgage loans are growing at a rate of 20 per cent. Where is the money going?

"Consumers are borrowing like there's no tomorrow," says David Marshall, chief economist at MMS International, a financial market information service. Yet, borrowing is not showing up in buying, at least not by Statistics Canada measures.

It's a mystery, one that appears to have John Crow, the governor of the Bank of Canada, spellbound. Mr. Crow is keeping interest rates in Canada much higher than they are in the United States because credit growth is so strong. Yet, growth in credit is not begetting growth in sales or production.

That credit demand is booming is not widely known, Mr. Marshall says. But "John Crow has these numbers in front of him every week."

Indeed, banking numbers are the best indicators of the economy because they are only a week old, he points out. Government statistics can be months old by the time they are released.

Strong growth in credit demand could mean even higher interest rates in the months to come, Mr. Marshall says. This is bad news for borrowers.

Strong growth in business borrowing is easier to explain. Businesses are importing machinery and equipment to upgrade their plants in Canada. Such imports do not show up in domestic output or retail sales.

But consumer spending on imports is included in retail sales. Part of the problem may be the numbers themselves, Mr. Marshall says. Surveys of consumer spending intentions may be wrong and retail sales numbers may be revised later.

Besides, Statscan numbers reflect an old-fashioned notion of consumption, concentrating as they do on cars, furniture, appliances, clothing and other goods. Many services are not included. For example, strong growth in personal care services - health clubs, estheticians, diet clubs - may not be reflected in retail sales numbers.

Spending in the underground economy (which would not show up in retail sales) also goes unseen.

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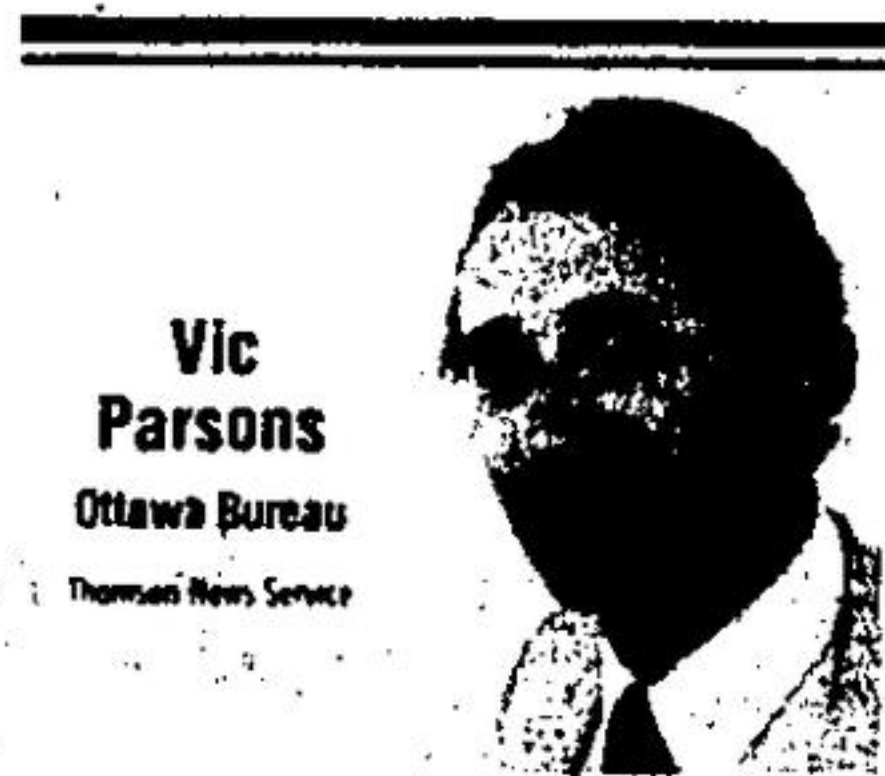
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Always resourceful, Fred uses a bathroom plunger to get a bald friend home.

Provinces could gain from sales tax



Vic Parsons
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By golly, it's awfully decent of those provincial premiers to stand up for the taxpayer and give the old one-two to Finance Minister Michael Wilson's planned sales-tax grab.

Isn't it? After all, it must be pretty tempting for the leaders of the 10 provinces, who have to pay their own bills, to take advantage of potential windfall revenues by piggybacking their retail taxes on the proposed Goods and Services Tax (GST).

This is a possibility that shouldn't be discounted if the GST comes into effect. The provinces stand to make millions of extra dollars from consumers at the cash registers if provincial tax owed is calculated on the cost of goods (and services, where applicable), plus the federal tax.

Ottawa declared in its recent technical paper that you won't pay federal sales tax on provincial tax. "In instances where a sale is subject to the general provincial sales tax, as well as the GST, the GST will be levied on the price exclusive of the provincial tax," the paper said.

No such comforting declaration has been issued by the provinces.

Rather, the premiers have dismissed Wilson's pride and joy as "unacceptable" without offering alternatives or saying what they will do. The closest they've come is the suggestion by Gary Filmon of Manitoba that the proposed nine-per-cent rate be lowered to some unspecified level.

WIDESPREAD IDEA
Filmon's idea is not a brainstorm of his own making. Commons finance committee chairman Don Blenkarn and the

Consumers' Association of Canada are among others to voice the same idea. Wilson, however, says the rate is "pretty firm."

But let's get back to the nobility of the premiers' attack on the GST.

The fact is that they appear willing to forgo the chance of some extra cash to defend their heretofore exclusivity in the realm of sales taxes paid at the cash register.

There are good reasons for their stance. For one thing, the premiers are aware that they will have to take at least a healthy share of the heat when consumers find themselves in 1991 paying total retail sales taxes in the order of 17 or 18 per cent.

That holds for the majority of the provinces. In some of the poorer ones, it'll be even higher. The exception is Alberta, which, because it does not have a provincial sales tax, presents its own problems. Premier Don Getty is not keen on seeing a new tax of that type in his province, and he is compelled to oppose it, at least for public relations purposes.

A combined sales tax of that magnitude will make it more difficult, for political reasons, for the provinces to raise their own retail tax rates. Sales taxes have been a prime revenue source for the junior level of government but the premiers recognize - perhaps better than Ottawa - that there is a limit to taxpayers' patience.

There is also the question of jurisdiction. While it seems unlikely anyone will legally challenge the federal authority to levy the GST, in practice, the provinces had been left alone in the retail sales-tax field.

This is about to change and undoubtedly the provinces, notably the feistier defenders of provincial rights, such as Quebec, resent the federal intrusion.

With the arrival of the feds on the scene, it will complicate some of the tailor-made tax moves various provinces have developed. Quebec, for instance, helps its important textile and furniture industries by exempting their products from retail taxes. A federal tax would erode some of this support by increasing the consumer cost of such goods.

Tories are violating Election Act



Derek Nelson
Queen's Park
Thomson News Service

Ontario Progressive Conservatives are breaking the law. And nobody knows what to do about it.

That's mainly because no one can come up with a better alternative than to let things go on as they are.

And if there is no solution, the Liberals and NDP will be in the same fix someday.

It is all because of one section of the Election Finances Act that became law in 1966, a section that deals with leadership races.

The Ontario Tories are gearing up for a leadership contest that will climax in a party-wide vote, probably next May.

A modified one-man, one-vote system, it will mean everyone who takes out a PC membership card will have some influence on who gets to be the next party leader.

Unfortunately, the current campaign, which has been unofficially under way for months, is against the law.

According to the finances act, no one can donate money to - or spend money on - a leadership campaign until the candidate registers himself with the Election Expenses Commission.

That's the provincial body, headed by former NDP leader Donald Macdonald, that looks after the financial aspects of political elections.

Partly as a reaction to the huge sums spent in the 1985 Tory leadership race, there was a feeling that all donations in such campaigns should be made public, just as they are for general elections. It was also felt it required the power of government to enforce it.

Mind you, this meant allowing the government to dabble in the internal affairs of a political party, even though there are no tax receipts for donations to leadership candidates, nor are there any government grants. It is strictly money from supporters of the candidates that is at stake.

Yet, the end result of the desire for controls was a law that said no one can raise money, or, for that matter, use their own cash, until a leadership race is officially declared.

And that can't be done until the official call for a vote goes out, giving the date fixed for the leadership vote.

SIX MONTHS

In the case of the Tories, the resolution that brought them a one-man, one-vote system said the leadership campaign should be no longer than six months.

At the earliest, that means a November declaration.

So, what is going on in the meantime? Are the potential candidates sitting at home quietly waiting for word for when they can cross the start line?

Not likely. The key tasks of putting together an organization and testing the waters for support have been tackled already.

Berry's World



John Berry
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"... So, one day, I decided to get into a field where there aren't many women ..."