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Is an economic slowdown inevitable?



A recent spate of surprising economic numbers has made forecasters heads spin. Do the numbers point to sustained boom or imminent bust?

Given the strength of U.S. and Canadian consumer spending in the second quarter, many economists say the threat of recession is past. John Grant, chief economist at Wood Gundy Ltd., disagrees. He believes recession in Canada and the United States will send interest rates tumbling very soon.

Dr. Grant has a good track record. Indeed, last year he topped the list of forecasters kept by the Financial Times of Canada by being right 68.8 per cent of the time not bad for an economist.

The economic numbers are curious. South of the border, the Americans have revised second-quarter growth to a respectable 2.7 per cent annual rate from the 1.7 per cent they estimated last month. In the words of one forecaster, "We have had almost a total rewriting of history."

U.S. growth has buoyed by strong consumer spending, a trend that was mirrored in Canada.

Despite the good news, Dr. Grant is sticking to his guns. "I'm unrepentant," he said. "I still think a slowdown is in the train." He points to the recent shrinking of the U.S. money supply as a sign that growth is slowing.

"This is a storm that has been brewing for a long time; it has not yet broken over the economy."

In Canada, second-quarter numbers released Thursday were dramatic. A worsening trade position swelled the current account deficit to a historic high of \$5.7 billion. The current account

measures trade in goods and ser-

vices, including dividend and in-

terest payments to foreigners.

But the weakness did not come from capital flows. The merchandise trade surplus, at a mere \$868 million, shrank to its lowest point since the third quarter of 1977. Imports surged by three per cent while exports dipped by 1.5 per cent.

Even so, the economy managed to grow at a 2.5 per cent annual rate in the quarter, pretty much in line with the American experience. The strength came primarily from consumer spending.

Dr. Grant wonders if consumers will come to the rescue of the economy in the current quarter. "My sense is that the consumer is not as strong as that number makes him look." he cautioned. Employment growth is, slowing and the poor trade numbers will take their toll on jobs and income.

RATEOUTLOOK

"Looking through the apparently strong consumer spending, I see evidence of a slowdown coming through now. The Bank of Canada should be getting ready to ease." If he is right, interest rates will begin to fall.

Dr. Grant admits that strong bank borrowing could prove him wrong. But much of the money is still going to mortgages, an area of demand that should be spent before long, given the slowdown in the housing market.

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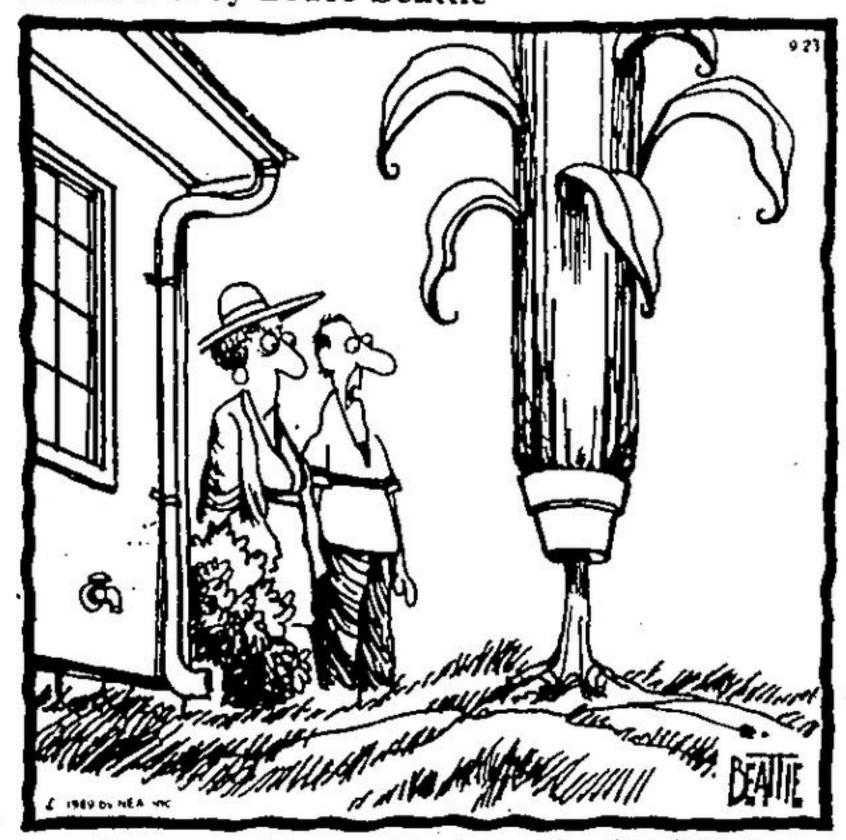
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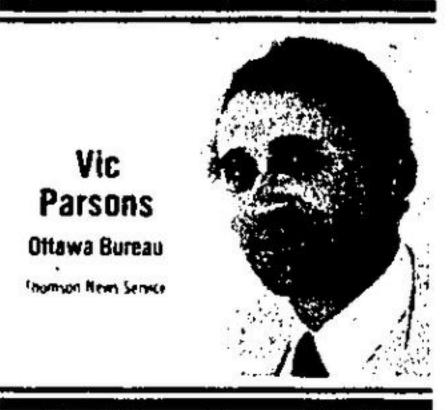
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"I never got around to transplanting it to a larger pot."

Auditor scrutinizes Nova Scotia fund



It's too bad there aren't more federal - and provincial bureaucrats like Auditor General Ken Dye.

Lately, Dye has been taking a lot of heat from Nova Scotia politicians who resent the federal auditor questioning the way the province has spent more than half of the \$200-million Canada-Nova Scotia Development Fund. The fund was intended for offshore oil and gas development.

Dye questions whether some highway and bridge construction, a passenger ferry in Halifax harbor, some vocational training and a computerized traffic light system in Halifax-Dartmouth have any relevance to the fund's stated purpose.

The reaction by some ruling Tories in Nova Scotia has been downright nasty In committee hearings, they made personal attacks on Dye's integrity, accused him of being a publicity hound and charged that he's acted in consort with their political opponents.

To his credit, Dye has responded with dignity. "Police people don't say things like that," he says.

The fact is, whether Nova Scotia cabinet ministers like it or not, Dye is merely doing his job. Indeed, if he did not raise questions about the spending, he might well have been open to the charge of being derelict in his duty.

As for allegations of partisanship, these can be dismissed as absurd.

Dye was at least as tough on Pierre Trudeau's Liberals as he has been on Tories. You can be sure that if the Liberals, New Democrats or the Young Nincompoop Party held power in Nova Scotia, his criticisms would have been the same.

Moreoever, Dye also conducted an audit of the \$225-million Canada-Newfoundland Offshore

William Control Control of the Contr

Development Fund while doing his Nova Scotia work. He found that in Newfoundland, which also had a Conservative government at the time, "in most cases, the types of projects being financed seem to be related to offshore oil and gas development."

Dye's job is to provide audit information to MPs so they can scrutinize government programs and spending. He is given free rein to bring to the attention of the Commons "anything that the auditor general considers to be significant."

Let's examine the Nova Scotia fund, which is financed entirely from the federal treasury.

In November, 1984, ministers from both levels of government signed an agreement on the fund. Treasury Board guidelines said projects to be funded "must be for infrastructure costs related to oil and gas activities in the offshore."

They also said the provincial minister had to submit projects to his federal counterpart describing proposals, outlining the need and relating it to the selection standards. Ottawa was given authority to do its own audits of the fund, and the federal minister was required to present an annual report to Parliament.

As cash began to flow into dubious projects, some federal officials got nervous. They were well aware fur would fly if Dye got wind of the kinds of things that were being funded.

Sure enough, the boondoggling was discovered. And perhaps it is embarrassment that has led to the bitter counter-attack by Nova Scotia Tories and their provincial auditor, Paul Cormier, who says Dye should mind his own business.

Taxpayers can expect more confrontations of this type in future, involving other provinces. In his last annual report, Dye made clear his view that greater scrutiny of intergovernmental funding is warranted.

"About half the contents of the average Canadian family's purse and wallet finds its way into these government treasuries," he said. "Whether this money is spent at the federal, provincial or local levels, the taxpayer deserves to know that it is spent with due regard for economy, efficiency and effectiveness. We in the public sector should be able to provide that assurance."

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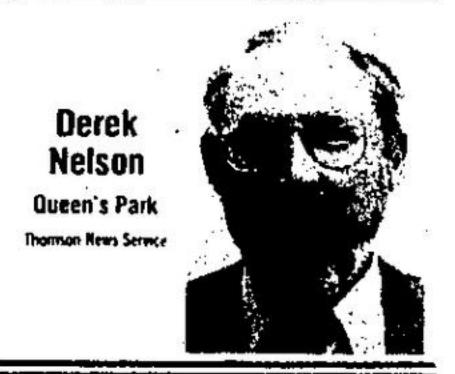
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How to cut carbon dioxide emissions?



That was a remarkable display of common sense from Canada's assembled energy ministers last-week.

Meeting here, they concluded more study had to be done on the social and economic impact of cutting carbon dioxide emissions before they'd commit themselves to it.

Carbon dioxide, of course, is one of the current bugbears of the environmentalist lobby, up there with PCBs and Alaska oil in the race for Great Satan.

The prime man-made source of carbon dioxide (other than breathing) is fossil-fuel processing and fuel used for transportation and industry.

The gas is widely believed to be the prime agent in warming up the earth, the dreaded "greenhouse ef-

As a Globe and Mail reporter put it in his story about the energy ministers' meeting: "Scientists have measured the pollution building up in the atmosphere. They know how those pollutants warm the earth by trapping heat that would otherwise radiate back into space. They believe but cannot yet prove that as those pollutants, known as greenhouse gases, accumulate in the atmosphere, they are now or soon will be turning up the thermostat on Earth."

One result of this furor was an international conference held in Toronto a year ago, chaired by former Ontario NDP leader and UN ambassador Stephen Lewis, that called on all countries to cut their carbon dioxide emissions by 20 per cent by 2005 to try to stave off what were said to be the horrendous consequences of warming, including shrinking ice caps, spreading deserts and rising seas.

So why are the energy ministers so cautious?

Publicly, they said it's because they foresee major economic impacts on the fossil-fuel dependent economies of the Maritimes and western Canada.

But one hopes that, privately, they went a step further and posed some fundamental queries.

There are two questions that should precede any action to curtail carbon dioxide emissions: first, does global warming really exist? Second, if it does, does it really mean anything?

BOTH WAYS

Almost 20 years ago, I did a series of interviews on whether the Earth was warming or cooling. The conclusion from the experts than was that there were pointers both ways.

Cries of doom from Lewis, Energy Probe and their ilk aside, nothing has changed.

It's true there has been a 20-percent rise in the amount of carbon dioxide in the atmosphere over the past 135 years and that the 1980s have been abnormally warm,

But there was actually a cooling period between the 1940s and when I wrote my article in 1971.

