

# the HERALD Outlook

"OUTLOOK" is published each Saturday by the HALTON HILLS HERALD, Home Newspaper of Halton Hills, A Division of Canadian Newspapers Company Limited, at 45 Guelph Street, Georgetown, Ontario L7G 3Z6.

877-2201

Second Class Mail - Registered Number 0943.

877-8822

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## Keep the economy right up the middle



**Diane Maley**  
Your Business  
Thomson News Service

Since the devastating deflation of the 1930s, policy-makers have been searching for the golden mean between inflation and deflation. Mean is the mid point between two opposites.

Inflation is soaring prices; deflation tumbling ones. These polar opposites have spawned some curious offspring in recent years: stagflation, disinflation.

Stagflation is the theoretically unlikely pairing of rising prices and slow economic growth. It prevailed in the mid-1970s and some say it is back again. Disinflation is a word economists coined during the 1982 recession because they were afraid to say deflation. Lately, it has come to mean a slowdown in inflation.

For example, the inflation rate has fallen from 12.8 per cent in 1981 to 5.1 per cent currently. Economists call this process disinflation.

With such a modest inflation rate, some might say we have achieved the golden mean. Not John Crow, governor of the Bank of Canada, or Alan Greenspan, chairman of the U.S. Federal Reserve Board.

Both these men believe inflation is still a real and present danger. That's why interest rates have stayed so stubbornly high.

You see, inflation wreaks havoc on the bond market. Inflation erodes the savings of people who lock their money up at a fixed rate of interest for a long time. In the 1970s, for example, long-term bondholders ended up with a loss after subtracting inflation.

Say you were to buy a 20-year Government of Canada bond that pays interest of 10 per cent a year. With inflation at around five per cent, your "real" or inflation-adjusted return will be five per cent, not bad by historical standards. Historically, investors have been satisfied with real returns of three to four per cent.

Now, suppose inflation zooms up to 13 per cent. You will still get your 10 per cent interest, but the purchasing power of your money will have fallen. You will have lost money after subtracting inflation.

Deflation is worse. Frank Feather, a Canadian futurist, describes it well in the following passage from Canada Tomorrow: "Deflation is as big a threat to Canada as is inflation. It gains momentum when desperate business conditions force owners to dump products on the market at whatever prices. Even a mild recession in North America could force many economic players to do this with real estate, stocks and bonds."

"As prices edge downward, debt that has been previously taken on becomes harder to service (it becomes harder to make the interest payments). Just like Third World borrowers, homeowners may lose jobs or be forced to take pay cuts. This will undermine their ability to service their big mortgages, forcing many to give up their homes - perhaps at prices below what they paid for them, or below the value of the mortgages on the property."

## SNAFU® by Bruce Beattie



"Orson Welles, right?"

## U.S. congress will see fireworks



**Kevin Bell**

Washington Bureau  
Thomson News Service

United States lawmakers returned to Washington this week to begin a new session of Congress that guarantees more than its usual share of political fireworks.

The second session of the 101st Congress will likely be more productive than the first session, which was dominated by political scandals involving Defence Secretary nominee John Tower and Speaker Jim Wright. Much of the work that should have been done is still waiting for the lawmakers' attention.

Inside and outside the day-to-day business on Capitol Hill, the political wars will be waged under the spectre of this year's Congressional elections. In their own minds, the political image of each candidate will be as important as the accomplishments of 1990.

The fireworks began early with a clash between Congress and President George Bush over his veto of legislation that would have allowed Chinese students to remain in the United States for an extended period.

Election politics were clearly playing a big role. Most congressmen - even those who have been loyal Bush supporters - were thinking of how the voters back home would react if he or she refused to back legislation protecting students from the government responsible for the Tiananmen Square massacre.

**IMAGE**  
Image must also be on the mind of Speaker Tom Foley, the Democrats' point man in the House, who returned from his winter vacation about 15 pounds lighter. He plans to lose another 50 pounds to become a leaner, meaner opponent of the Republicans.

But it's likely that the most important images will be reflected off the abortion issue.

With the tide turning strongly in favor of the pro-choice forces, some hardline anti-abortion advocates have softened their stand.

The Republicans are clearly nervous over polls showing that many voters approve of their conservative economic platform but oppose their attempt to restrict abortion rights.

As thousands of anti-abortion protesters descended on the city Jan. 22 to mark the anniversary of the 1973 Supreme Court ruling that legalized abortion, Republican national chairman Lee Atwater chose his words carefully. The Republican platform commits the party to a constitutional amendment that would overturn the Supreme Court ruling, but Atwater told the protesters that there is room in the party for varying points of view.

Atwater has a tough job to fuz the party's image on abortion after the president refused last year to allow federal money to be spent on abortions for poor women who are victims of rape or incest.

But presidential spokesperson Marlin Fitzwater is going along with the new strategy. He termed Bush's position "a personal choice of conscience" and reiterated the new party position that Republicans have room for pro-choice candidates.

Bush, however, is sticking to his hardline stand. At a recent press conference, he became angry when he was asked about a report that the Bush family has split cleanly down male-female lines on abortion, with the women taking a pro-choice stand.

That report is "pure, unadulterated (long pause) malarkey," he said.

It was obvious some stronger words came to mind.

Most politicians may be concentrating on this year's Congressional elections, but that hasn't stopped speculation about possible contenders for the 1992 presidential race.

As in the 1988 election, the early consensus again seems to be that New York Gov. Mario Cuomo has the best shot at getting the Democrats' nomination.

## Charest will be back



**Stewart MacLeod**  
Ottawa  
Thomson News Service

There are several compelling reasons why Prime Minister Brian Mulroney, to the surprise of so many of his cabinet colleagues, accepted the resignation of his sports minister, Jean Charest.

In fact, given Mr. Charest's earlier statements in Auckland, N.Z., that he had no intention of quitting, we can safely assume the resignation idea came from the prime minister.

And a good idea it was, even if the 31-year-old minister was one of the cabinet's brighter lights, obviously destined for an upward political future. It's remarkable how many of his political colleagues, in introducing him to audiences, referred to Mr. Charest as a future prime minister.

He still could be. Mr. Mulroney not only left the door open for the disappointed minister's return to cabinet, he strongly hinted he expected Mr. Charest to come through it.

"I accepted his resignation knowing that Charest is a very honorable man," said the prime minister, "and he will no doubt come back."

No doubt at all. But first, he must serve a suitable stretch in the backbench reform school, where he can share experiences with Bernard Valcourt, who is serving his backbench term for being convicted of driving a motorcycle under the influence of alcohol. He, too, will no doubt be back in cabinet.

What the prime minister has clearly learned - and, let's face it, he's had a fair amount of experience - is that fighting opposition attacks about alleged scandals is not only non-productive, but decidedly unpleasant.

**FAST ACTION**  
The opposition was smelling blood the moment it was revealed that Mr. Charest tried to phone a Quebec judge to explain, or whatever, details of a letter he had written earlier. He was asked to do this by one of the lawyers in the case, which involved a dispute over the selection of coaches for the Commonwealth Games, now under way in New Zealand.

Mr. Charest said there was no thought of trying to influence a judge, it was just a matter of trying to be helpful.

Mr. Charest, being a lawyer as well as a six-year veteran of Parliament, should have been fully aware of the dangers surrounding phone calls to judges. But there are indications that he sometimes acts rather impulsively, such as imposing a lifetime ban on sprinter Ben Johnson - before an inquiry was even established.

Perhaps a few months out of cabinet will give him time for reflection. It will also give the prime minister a break from the daily torture of allegations involving ministerial improprieties.

Anyway, a phone call like this calls for a minister's resignation. Regardless of intent, there shouldn't even be the slightest perception of influence-peddling.

## Berry's World



Jim Berry  
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