INTEREST QUESTIONS

Reagan keeps dodging

by JOHN FERGUSON
Southam News

OTTAWA — A storm over rising interest rates is brewing for next month's summit of the Big Seven western industrial countries in London, but an electioneering Ronald Reagan seems determined that not a drop will fall on his head.

The Europeans plan to come down hard on the Americans for too-high interest rates that have been acting like a huge magnet, pulling cash out of their economies and into the U.S. and driving down the value of their currencies.

The question is how hard the push will come from lame-duck Prime Minister Pierre Trudeau, who seems more worried about world peace than unemployment, and Finance Minister Marc Lalonde, who needs American support in his bid for the top job at the Paris-based Organization for Economic Co-operation and Development.

Already, Lalonde's public speeches appear to be toning down the harsh rhetoric that preceeded the summits of the last three years when the Liberals, eyes fixed on plummeting opinion polls, were determined to shift all blame for the recession to the U.S.

Reagan's pat answers, backed by skillful media manipulation from his handlers, enabled him to get through the last three summits without taking the rap for high U.S. rates that have forced up borrowing costs throughout the world.

While most economists blame heavy U.S. government borrowing to cover its $200-billion spending deficit for driving up rates, Reagan and his treasury secretary, Donald Regan, refuse even to accept there is a connection between deficits and interest rates.

The other six summit partners — Canada, Britain, France, West Germany, Italy and Japan — have had to be satisfied at the last three summits with vague assurances from Reagan that interest rates would drop when inflation fell. When that didn't happen, they were told they would fall when investors were convinced the economic recovery was continuing without a new burst of inflation.

The U.S. recovery is strongly underway and there are no signs that inflation is about to flare up again. But interest rates, rather than falling, are actually rising. The prime lending rate U.S. banks charge top corporate customers stands at 12.5 per cent, versus 10 per cent a year ago.

At first, Reagan administration officials blamed the U.S. Federal Reserve Board — the rough equivalent of our Bank of Canada — for keeping the money supply tight.

Now Reagan has changed tack again, saying last week: "One of the reasons for the (high) interest rates is still the lack of confidence out there that we do have inflation under control."

The immediate effects of higher rates in Canada and other western industrial countries are slower growth and higher-than-planned unemployment, already at a staggering 32 million.

Tom Maxwell, chief economist of the Conference Board of Canada, estimates each percentage-point increase in interest rates cuts about half a point off the overall growth rate of the economy.

"It's not disastrous yet," Maxwell says of the one-point rise in the prime rate in Canada. "But it's noticeable."

For developing countries heavily in debt, higher rates add millions to their already staggering borrowing costs. Just the half-percentage-point increase in the U.S. prime rate alone last week will add $350 million a year to Brazil's interest payments, $300 million to Mexico's and another $200 million to Argentina's.

The longer-term effects are even worse. High interest rates and the stronger U.S. dollar that results have driven up the price of U.S. exports and made imports into the U.S. cheaper, causing a big jump in the U.S. merchandise trade deficit.

The trade deficit has touched off a protectionist mood in the U.S. Already, barriers have been erected against some commodities and manufactured goods.

With more than 30 cents of every dollar Canadians earn coming from exports — and about three-quarters of those exports going to the U.S. — the effects of U.S. protectionism could be devastating.

In the meantime, Reagan is half-heartedly wrestling with Congress over some $50 billion in budget cuts for the next two years that have failed to impress the financial markets. Few give them much real chance of passage in an election year because Reagan refuses to accept cuts in his $300-billion-a-year defence budget while Congress balks at Reagan's plans for more cuts in social programs.

"You would need a really major deficit reduction, say $100 billion in a year, to influence the financial markets," says Murray Smith, a senior policy analyst with the C.D. Howe Institute, who has just returned from Washington. "But I think it is very unlikely that they would make a major reduction in the deficit in an election year."

Economists such as Henry Kaufman of the prestigious Salomon Brothers investment firm say financial markets are now experiencing the long-predicted clash between U.S. government borrowing to finance its deficit and borrowing by the private sector — everything from business expansion to consumer loans. Too much competition for too little money means higher rates.

The U.S. government now is absorbing about 40 per cent of all borrowing, about twice its normal share and many economists, including Kaufman, are predicting rates will go higher still.

The U.S. savings rate is not high enough to meet the demand for borrowing so high interest rates have to be maintained to attract cash from abroad. Foreign currency has been flowing into the U.S. in such massive amounts that economists predict the U.S. will become a net world debtor by the end of 1985. The total owed abroad will exceed its $200 billion in foreign assets.

"It took the United Kingdom 50 years and two world wars to move from a position of being a net lender to a net debtor," says Smith of the C.D. Howe Institute.

"The U.S. will have done it in three to four years."

If it happens, the U.S. dollar will eventually come under tremendous pressure and start to tumble.

"When it starts to fall it will fall quickly," says Maxwell. "What would really hurt us would be the spillover of any policies the U.S. government puts in place to defend it."

These could range from even higher interest rates to import restrictions, all of which could have serious repercussions for Canada.

Bad guys to get a break?

EDMONTON (CP) — Canada's aging habitual criminals may soon get pardons relieving them of their habitual criminal status, says Don Sarochan, a lawyer for a commission reviewing the convicts' plight.

Sarochan said officials of the criminal justice system are expected to act this month on a report by British Columbia Judge Stuart Leggatt which recommends pardons for most of the convicts sentenced between 1950 and 1977 under Canada's now-defunct habitual criminals legislation.

Sarochan said Leggatt determined, in five months of hearings in eight Canadian cities, that most of Canada's designated habitual criminals don't pose a danger to society.

Under revamped dangerous offender legislation, that means they don't require preventive detention.

Leggatt, who reviewed the cases of 87 habitual criminals between October 1983 and February 1984, reported to Justice Minister Mark MacGuigan and Solicitor General Roberal Kaplan in April, said Sarochan.

Allison MacPhail, policy analyst for the federal Solicitor General's Department, confirmed Tuesday the ministers are reviewing the report with plans soon to make an announcement concerning it.

Sarochan said many convicts were sentenced to preventive detention under the old legislation for property offences and other nuisance crimes, and pose no danger to society.

Many convicts were constantly recycled through the prison and parole systems because their status required they be under lifelong supervision, he said.

Gregoire 'should resign'

THETFORD MINES, Que. (CP) — A coalition representing about 1,500 women in the riding of Frontenac is demanding that convicted sex offender Gilles Gregoire resign his Quebec national assembly seat because they say his presence there is an insult to women.

"We don't want to hang him, we just don't want him to represent us," said Liliane Pare of the Groupe des femme pour le depart de Gilles Gregoire.

Pare said the 28 groups which form the ad hoc coalition, including nurses, teachers and the local chapter of the Confederation of National Trade Unions, will make themselves heard "to signify that he's not wanted or accepted here."

Gregoire, released on parole March 28 after serving nine months in Orsainville jail near Quebec City, was sentenced to two years less a day last July for engaging in sex with seven juvenile girls.

"We are shocked and hurt that the assembly does not prevent him from coming back, but we will," said Renee Gilbert, who speaks for 300 area women in the Centrale de l'enseignement du Quebec, the province's largest teacher's federation.

"His crime touches women, it's an insult to women," Gilbert said Wednesday in a telephone interview.

Gregoire has said he would resign his seat if residents wanted him to. Since his release, he has not yet taken returned to the legislature.

Gregoire quit the Parti Quebecois he co-founded in 1968 to sit as an independent after he was charged last June.