

The weather conditions are not available. change weather location



Geologic Journey II 2 DVD Set Includes the complete 5-episode series with bonus interviews and extended scenes. Own it today!

shop cbcshop.ca



News

Sports

Radio

TV

My Region

More

Watch

Listen

Search



Sign Up

Log In

# CBCnews | Politics

### IN THE NEWS

- Britain's peace wall
- London riot hotspots
- Credit rating FAQ
- Your investments

- Home
- World
- Canada
- Politics
- Business
- Health
- Arts & Entertainment
- Technology & Science
- Community
- Weather
- Video

- Politics
- Inside Politics Blog
- Photo Galleries

## Bank of Canada faces interest rate dilemma

Promise by U.S. Federal Reserve to keep rates low may force Canada to follow

By Prithi Yelaja, CBC News Posted: Aug 11, 2011 7:47 AM ET | Last Updated: Aug 11, 2011 7:47 AM ET 519



Mark Carney and the Bank of Canada may cut interest rates in light of the U.S. Federal Reserve's promise to keep rates low, some experts predict. (Chris Wattie/Canadian Press)

The Bank of Canada had been expected to start raising interest rates in September, but is now likely to keep them on hold or even announce a cut, experts say.

Canada's central bank is due to make an announcement on rates in September, on the heels of the recent decision by the U.S. Federal Reserve Bank to keep interest rates south of the border low and stable for two years.

CBC business commentator Michael Hlinka, who also teaches at the University of Toronto School of Continuing Studies, is among those to predict a cut in Canadian rates. He calls the announcement by the U.S. Federal Reserve "extraordinary" and also "short-sighted and utterly clueless."

"I've never heard of a central bank in North America ever put an extended time frame on interest rates like this," said Hlinka, not even after the Sept. 11, 2001, attacks.

"The announcement in the U.S. that interest rates won't go up any time soon is public policy makers saying



### Stay Connected with CBC News

- Mobile
- Facebook
- Podcasts
- Twitter
- Alerts
- Newsletter

**East Africa Relief**

**YOU CAN HELP Donate Now**

**CLICK HERE**

ADVERTISEMENT



### Related Links

- P.O.V.: Are you confident in the Canadian economy?
- FAQs: Becoming a credit rating comeback kid
- INVESTOR ADVICE: Avoid snap decisions
- Flaherty warns of risks to Canadian economy
- World markets rebound

## Inside Politics Blog



### Power & Politics: The War Room podcast (August 12, 2011)

by Rosemary Barton Aug. 12, 2011 2:14 PM

During his Latin America trade mission, Stephen Harper said the economy is right on track. But is that really the case?

### Top News Headlines



■ Somalia faces cholera epidemic amid famine 0

- Court strikes down key part of U.S. health-care bill 109
- Nearly 600 charged in U.K. riots 380
- Markets hang on to gains 71

Watch Listen

Most Recent

Web2PDF

converted by Web2PDFConvert.com

to consumers, there is no reward in saving your money, so don't think about saving for your retirement or a rainy day, you might as well spend it now in the hope that this consumer spending will stimulate the economy and lead to job creation."



Michael Hlinka is a CBC business commentator.

Canada will have no choice but to follow suit in cutting rates, said Hlinka.

"To raise interest rates would drive up the Canadian dollar, making our exports that much less competitive. Now it seems almost inevitable that the next move for our benchmark interest rates will be down."

But that could push the country into a deep and prolonged recession with record levels of private debt, according to Hlinka.

Cutting interest rates could further overheat the housing market and encourage people to spend beyond their limits, creating a bubble that will soon burst, predicts Hlinka.

He points to Vancouver, a city whose housing market has cooled considerably this summer, as a harbinger of things to come for Toronto and other Canadian cities.

BMO deputy chief economist Doug Porter told the Canadian Press that the bank will likely keep its key overnight rate target at one per cent well into next year.

Until the recent turmoil, Porter said, he thought the Canadian central bank would start raising interest rates this fall with two quarter-point rate hikes by the end of the year.

"In fact, because of the weakness in equities there has been some talk recently that there is even a remote possibility the Bank of Canada could cut rates in the coming weeks or months," Porter said.

"I still think that's a long shot, but at the very least events have conspired to keep the Bank of Canada on the sidelines for a lot longer than most had anticipated as recently as a few weeks ago."

Andreas Park, a professor of economics at the University of Toronto, is more cautious, hedging his predictions and taking a wait-and-see approach.

"If economic conditions stay as they are now in Canada, I predict interest rates will go up. If we see a deterioration in the U.S. on a small scale that affects Canada slightly, then they will stay as they are. If there is another recession in the U.S. the interest rates will be cut in Canada," says Park.

"All of this is a big unknown for Canada at this point. And the Americans don't know it either."

If the U.S. government cuts spending dramatically that could have a negative impact on the economy, he adds. If that happens, Canada will be affected.

If interest rates are cut in Canada in September, it will mark five years of low rates.

### Trade ties key

During trade talks in Brazil earlier this week, Prime Minister Stephen Harper downplayed the market turmoil.

"We put too much emphasis on this stuff. It's way too easy to focus on the trillions that seem to have been made or lost from movements on markets. What really matters is what we're doing here ... to focus on a clear, long-term strategy to create jobs and wealth."

Prof. Andreas Park agrees.

"We had a political crisis with the debt ceiling discussions about whether to increase taxes, cut the deficit and so on and so forth ... but nothing has fundamentally shifted in the U.S. economy in the meantime," says Park.

"I don't think that these enormous drops we've seen in the stock markets all of a sudden are on the whole warranted, because really nothing has fundamentally shifted other than a fear of recession caused by potential government spending cuts."

Park says Canada would be foolish not to seek trading partners other than the U.S.

"It's a competitive world and our government should do as much it can to ensure our businesses can trade with other countries. Brazil is an important emerging nation. It's done really well economically over the last few years and it makes sense to strengthen trade ties with them. In many aspects they are in the same business as Canada — digging natural resources out of the ground."

Canada should also seek to boost ties to other emerging countries such as Chile, Argentina, China, South Korea, Thailand, Malaysia and India, he adds.



## Latest Politics News Headlines



■ Canada reaches free trade deal with Honduras  
🗨️ 0

- Cost of ending wheat board monopoly to be studied 🗨️
- Bank of Canada faces interest rate dilemma 🗨️ 519
- Harper signals tougher stance on 'outrageous' Syria 🗨️ 440

## On Tonight's National

- B.C. polygamy evidence helps Warren Jeffs conviction
- Fire in eastern Ontario kills mother, 2 children
- Harper in Honduras to spotlight trade co-operation

[See more stories from The National](#)

## The House

### THE IMPACT OF GLOBAL ECONOMIC UNCERTAINTY ON CANADA

Aug. 6, 2011 12:38 AM

This week on The House, guest-host Susan Lunn asks Minister of State for Finance Ted Menzies how economic problems in the U.S. and in Europe could end up affecting the Canadian economy. We also ask retiring BC NDP MLA Dawn Black what advice she has for the interim leader of the federal NDP, Nycole Turmel.

ADVERTISEMENT

Hlinka draws parallels between the Bank of Canada and its Swiss equivalent, which announced last week it was cutting its benchmark interest rate from one-quarter of a per cent to as close to zero as possible.

With unemployment at 3.2 per cent and an economy that is growing at two per cent in the midst of all the turmoil in Europe, the Swiss are the envy of the world.

"They're terrified that the appreciation of the Swiss franc is going to upset that apple cart," says Hlinka.

"So their public policy makers and central bank is saying, 'We'd much rather run the risk of creating an asset bubble, instead of sitting and watching the Swiss franc appreciate day after day and make the products we export to the rest of the world utterly uncompetitive,'" says Hlinka.

**P.O.V.:** Are you confident in the Canadian economy?

Switzerland's major trading partners are in the EU, while Canada's major trading partner is the U.S. Switzerland's economy is much healthier than its peers in the EU, just as Canada's economy is much healthier than the U.S.'s.

But Hlinka warns there is a risk in cutting interest rates.

"I feel like the wild-eyed Cassandra inside the gates of Troy who said 'Don't bring in that statue. It can lead to no good.'"

Rather than addressing fundamental economic problems, public policy makers are playing on the margins with factors that have nothing to do with what the real issues are, such as structural imbalances in the economy, says Hlinka.

"The public sector is too big relative to the private sector in the developed countries of the world. The public sector has a much better deal in terms of wages, benefits, job security, and working conditions, and it's creating a two-tier society of haves and have-nots."

The private sector creates wealth while the public sector distributes it, and the result of the imbalance is there are too many people who are working to distribute the wealth and too few people who are working to create it, according to Hlinka.

"By the way, these are very unpopular things to say and I'm the first to admit it."

It's an easier fix to fiddle with interest rates, rather than tackle politically sensitive issues, says Hlinka.

[Report Typo](#) [Send Feedback](#) [Recommend](#) [Tweet](#) [3](#) [+](#) [List](#) [Share](#)

## Comments (519)

[Hide comments](#)

Sort by:

Display: 5 | 10 | 25 | 50 comments per page

### Givemeabreak47

2011/08/12  
at 1:33 PM ET

Rating

0



Something has gone wrong when the public sector worker making 45 - 60 000 per year is now considered to be in a second "have" tier above everybody else...

Lets just do away with them all then, so we can all be "have-nots" together. Fewer services for all and less pressure for the private sector to pay anyone a living wage.

[Reply](#)

[Report abuse \(0\)](#) | [Policy](#)

### justadad56

2011/08/12  
at 12:51 PM ET

Give everything to China, child labour, everything. They are Squat without us. If they own us, shame on us.

Rating  
0

0 0

Reply [Report abuse \(0\) | Policy](#)

**rebuilt**

2011/08/12 at 11:56AM ET

Rating  
2

3 1

Reply [Report abuse \(0\) | Policy](#)

The Bank of Canada like the Federal Reserve is part of the central banking system.

Clearly the central bankers are profiting immensely from the problems they have created with their business model of creating debt and compounding interest out of thin air. But never creating enough money to pay off that debt.

Awise person who finds themselves in a hole stops digging. It's past time to climb out of our hole and get rid of the central banking schemers. Like they have in Iceland.

**DeborahS**

2011/08/12 at 11:26AM ET

Rating  
6

6 0

Reply [Report abuse \(0\) | Policy](#)

A lot of people are commenting on house prices. One of the best ways of ensuring that house prices do not rise too much is to lower the amortization rate. People work out the purchase by how much they can afford a month. Lower the amortization rate ceiling to 20 years and see what happens to the payment. Sit back and wait for the housing bubble to burst or house prices will stabilize pretty quick as the pool of people available to buy them will decrease due to wages being too low. Course the banks will fight tooth and nail and claim they are fighting for the "little guy" who will never be able to afford a house!

I bought my house 18 years ago and paid \$178,00 - now I am being told it it worth \$375,000. This is crazy. My wage has only gone up because I switched jobs. My old job is only paying \$3,000 a year more. The only way I will realize a profit is if I sell and purchase a home outside the Ottawa market - hmm I still need to work. The house price is more driven by the cost of land so when we looked around for a smaller home - the price difference would only cover the cost of moving - no more. The only one who gained was the bank - we have paid them a lot of interest over the years.

**candu9**

2011/08/12 at 11:22AM ET

Rating  
-5

9 14








Reply [Report abuse \(0\) | Policy](#)

The people of Canada are the stupidest people there are, next to the Americans. Switzerland is not a member of NATO. They are not involved in all of these phony wars. We are spending billions on slaughtering innocent women and children. We support, without question, the biggest antagonist nation in the Middle East. This is crazy. Switzerland has a 3.2% unemployment rate and they are growing by 2% per year and they are about to lower their interest rates to near 0%. What's to learn here people. DUH!

First | Previous | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | Next | Last

[Log in](#) or [Sign up](#) to submit your comment.

**Don't Miss**

						
<b>FAQ: U.K. RIOTS</b>	<b>DAN MISENER</b>	<b>THE LIST</b>	<b>INSIDE POLITICS</b>	<b>LIVEBLOG</b>	<b>THE HOUSE</b>	<b>THE</b>
Where and why the violence is happening	Analysis: Feds want to beef up digital surveillance powers	Federal job cuts, the story so far...	Mlewski: Harper deals deftly with Dima on debt	Read the latest on our Parliament Hill ticker	AUDIO: That's A Good Question! with Kady O'Malley	Beat oppo Hou



# CBC.ca

[Aboriginal](#)  
[Books](#)  
[Contests](#)  
[Digital Archives](#)  
[Documentaries](#)  
[Kids](#)  
[Kids' CBC Preschool](#)

[Kids' CBC Wonder World](#)  
[News](#)  
[Parents](#)  
[Program Guide](#)  
[Radio](#)  
[Sports](#)  
[Television](#)

[CBC Member Centre](#)  
[CBC Player](#)  
[CBC Shop](#)

## CORPORATE

[About CBC](#)  
[Jobs](#)  
[Visit the Canadian Broadcasting Centre](#)  
[Production Facilities](#)  
[Mobile Production Rentals](#)  
[Ombudsman](#)  
[CBC: Get the Facts](#)

[Independent Producers](#)  
[Pitch a Radio or Audio Program](#)  
[Program and Content Sales](#)  
[Archive Sales](#)  
[Educational Sales](#)  
[Tapes, Transcripts and Image Assets](#)  
[Digital TV](#)

## STAY CONNECTED

[MOBILE](#) | [RSS](#) | [PODCASTS](#) | [MEMBER SERVICES: NEWSLETTERS & ALERTS](#)

[Terms Of Use](#) [Reuse & Permissions](#) [Advertise](#) [Privacy](#) [Site Map](#) [Contact Us](#)

Copyright © CBC 2011

**CBC**  **Radio-Canada**

[cbc.radio-canada.ca](http://cbc.radio-canada.ca) [cbc.ca](http://cbc.ca) [radio-canada.ca](http://radio-canada.ca)