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● (1600)

[*English*]

The Chair (Mr. Brent St. Denis (Algoma—Manitoulin—Kapuskasing, Lib.)): We have a sufficient quorum to hear testimony, so we shall start that as other members come from the vote.

I will first of all thank our witnesses for attending today in some pretty nasty weather. Some of you have come from out of town, and I know you're aware of why we were late. We appreciate your indulgence. If we go past 5:30 to make up some of the time and you have to leave, please just excuse yourself. We may try to go past that time so that we have sufficient time to cover the points you wish to make and sufficient time for questions.

Colleagues, we're continuing today our study of what might be characterized as a Canadian industrial strategy. What is it? Does it exist? If it does, to what extent does it exist and what ideas can we derive from witnesses such as yourselves today to improve not only Canadian productivity, competitiveness, and our place in the world, but also how we can do a better job as a nation in bridging the gap between the rich and poor and in making sure our regions are all fairly represented in the growing and healthy economy of this country?

With that, I'm pleased to have the Canadian Manufacturers and Exporters, the Canadian Labour Congress, and the Canadian Federation of Independent Business here.

The order in which you're on the agenda is such that we'll start with the Canadian Manufacturers and Exporters. It's a random listing.

Are you going to speak, Jayson?

Mr. Jayson Myers (Senior Vice-President and Chief Economist, Canadian Manufacturers and Exporters): Yes, I will, Mr. Chair.

The Chair: I invite you to speak, but I would ask witnesses to speak for five to ten minutes maximum if you can, giving lots of time for questions.

Thank you for being here.

Mr. Jayson Myers: Thank you very much, Mr. Chair.

My name is Jay Myers. I'm the senior vice-president and chief economist with Canadian Manufacturers and Exporters.

Manufacturing is Canada's largest business sector. It accounts for 18% of our economy, generates 70% of our exports in goods and services, invests over $25 billion a year in R and D and new technology, and employs 2.3 million Canadians. But it plays a much greater role in the Canadian economy because it's also the customer base for all of the commodities, energy, utilities, business services, and financial services manufacturers buy. It's also a major taxpayer and employer, so a lot of retail, public services, and personal services are also dependent on the industry.

All together, one dollar of output in manufacturing generates a total of $3.05 in total economic activity, so it's a major part of the Canadian economy. It really means that a prosperous manufacturing sector is critical to Canada's economic future and to improving the living standards of all Canadians.

Over the past decade manufacturing has been one of Canada's high-growth industries. Driven by success in export markets, manufacturing has outpaced the Canadian economy since the beginning of the last decade. Employment in the sector is still near record levels. Manufacturing shipments are expected to exceed $560 billion in 2004, and that's double their level of only 12 years ago.

In spite of the strong growth enjoyed by the industry, manufacturers in Canada are at a critical crossroads. They face a number of significant challenges: an aging workforce; the emergence of China as an industrial powerhouse; an intensification of competition in international markets; the appreciation of the Canadian dollar—for exporters this is like a 40% price cut that's occurred in 18 months; escalating business costs; increasing constraints in the supply of energy; trade and border problems with the United States; an erosion in the quality of Canadian infrastructure; and mounting competition with other countries around the world for investment and product mandates.

How companies respond to those challenges will fundamentally change the nature of manufacturing in Canada over the next ten years. Manufacturers will have little choice but to be world-class in a new era of global competition, global supply chains, and new global market opportunities. Innovation will be key in driving higher value and productivity improvements. International trade, investment, and business partnerships will become even more integral to business growth. New investments will be needed for us to keep pace with technological change. New skills and workforce capabilities will be required in a more knowledge-intensive workplace, and time, agility, and customer service are going to become important differentiators for competitive success.

Canada's manufacturers will also require a world-class business environment in which to grow. They depend on their suppliers as well as on Canada's schools and research institutions, businesses, and financial services to meet their changing requirements in terms of skills, innovation, and customized products and services. At the same time, they will depend on governments to implement internationally competitive tax and regulatory policies, secure access for them in international markets, ensure a reliable supply of cost-competitive energy, and maintain and improve the transportation and communication infrastructure that keeps commerce flowing in Canada and across our border.

Earlier this year Canadian Manufacturers and Exporters launched Manufacturing 20/20, an industry-led initiative to identify the current and future challenges that are transforming the business of manufacturing in Canada and the factors that will be critical to sustaining high-value activities and jobs, upon which the economic prosperity of the country depends. To date, CME has convened 60 meetings, involving over 820 CEOs and senior executives from manufacturing companies of all sizes across Canada.

I've tabled a summary of our interim findings for the committee. I've also tabled our latest management issue survey, which takes a look at a number of issues that are critical to manufacturing. There were more than 830 manufacturing companies that took part in that survey.

Another series of 30 meetings, this time bringing manufacturers and community leaders together to coordinate action plans in response to local issues, is now underway across the country.

Several key themes have emerged in the course of our Manufacturing 20/20 discussions. We were reminded in every meeting about how unique circumstances are from community to community across Canada, but at the same time, we observed that manufacturers in communities across this country are unique in some pretty similar ways. Not only are many important issues held in common, there's a commonly shared sense of urgency among manufacturers and a commonly voiced need for new strategic approaches in response to the challenges and changes being experienced by Canadian industry.

That being said, Canadians are looking forlocal solutions. It's up to manufacturers themselves to define the future of their business andwhat we have to do to be globally competitive in the future. In doing so, they're going to look first to local communities for support, but they'll also depend on an enabling businessenvironment of services, infrastructure, and government policies at provincial, regional, andnational levels. They'll grow their businesses wherever circumstances are the most favourableto allow them to meet the needs of their customers and secure competitive returns on theirinvestments—if not in Canada, then in some other country.

New strategic approaches are required to secure the economic prosperity of Canadians andthe industrial and business growth upon which that prosperity depends in an era of globalcompetition and global opportunities. Business strategies must and will change, and so too mustthe policies and programs of governments, Canada's schools, our research institutions, ourlabour organizations and business associations, and our financial services sector.

Successful strategies will need strong and well-grounded foundations. First of all, they have to recognize that it is important to create wealth before wealth can be shared. Policies for business growth should be a prerequisite for success in addressing the needs ofCanadians with respect to health care, education, income assistance, or any other socialprogram.

Second, they have to reflect the importance of Canada's primary and secondary industries in generatingwealth, and they must be informed about and responsive to the challenges andchanges occurring within the industry.They have to pay particular attention, I think, to those business sectors like the automotive industry, aerospace, electronic equipment and advanced automation, and value-added food andresource processing, which play a very important role in anchoring supply chains and businessnetworks across Canada.

Our strategies must be forward-looking but they must also be practical. They have to be based onwhat it really takes to compete and grow in a global marketplace rather than on general, fairly inconclusive theories that tend to stultify positions. They can't be based on trying to pick winners but should be based on enabling change and adjustment totake place across all sectors, aiming to provide the framework conditions within whichCanadian businesses can compete and grow. I think they have to focus on economic outcomes, on commercial needs, and on growth opportunitiesof business; in short, they have to take a supply chain approach and look at what it takes for customers to succeed.

Strategies have to be integrated, with common goals and coordinated action involvingmanufacturers, all levels of government, all levels of education, research centres, labourgroups, supporting business, and financial services. They have to aim to enhance the business environment within Canada, build more opportunitiesfor Canadian industry in a more integrated North American market, and expand access forCanadian exports, investments, and business partnerships in markets around theworld.

We have to aim high because success will be built on global excellence. Canadians shouldaim at having the highest per capita incomes as well as enjoying the best place to live inthe world. Canadian manufacturers have to aim to become the benchmark of the world interms of innovation, productivity improvement, and business management. Customersaround the world should see Canadian companies as integral to their business success. Canada should aim to become the logistics hub of North America and the country wherebusinesses prefer to locate, invest, manufacture, employ, and grow.

I think we have to build on the assets we have in this country, on the successes in business, on thecapabilities of our workforce, on some of the world-class educational and research institutions we have here, on ourresources, and on our logistic strength. But we have to learn more from best the practices of other countries around the world.

Finally, strategies have to lead to action. We've had too many consultations, too manyreports, too many good intentions, and too many good ideas not leading anywhere. Strategies areonly successful if they lead to real and measurable change, and that's ultimately the challengewe face today.

In the course of our 20/20 discussions, business and community leaders acrossCanada have identified a number of critical success factors, many of which involve a role for thefederal government. They refer specifically to support for education and skills training programs; improving programs aimed at strengthening the commercialization potential of research,financing investments in new technology, and supporting product and processinnovations in industry; and the urgent need to enhance both security and the efficient flow of goods and people at ourborder crossings. If you can't get people and product across the border, then companies aren't going to do business in Canada.

Also identified were the following: opening international markets to Canadian exports and outward investment; ensuring a level playing field by effectively enforcing trade rules, and where necessaryproviding financing and investment mechanisms to offset foreign subsidies and investmentincentives; the need to improve the tax treatment of manufacturing investments by way of accelerated-write-offs and tax credits for investments in new technologies; maintaining an adequate, cost-competitive, and reliable supply of energy; and expanding the capacity of Canada’s transportation and communications infrastructure.

● (1605)

Smart regulations are an important element in building the type of enabling businessenvironment that Canadians and industry both require in a more fast-paced, globally competitive,and technologically sophisticated economy. As the report on smart regulations points out,measures that can be taken to reduce compliance costs and improve the efficiency of theregulatory process should also improve the effectiveness of regulatory compliance and allowresources to be reallocated to strengthen enforcement of regulations in those areas affectinghealth, safety, and the environment where risks are high. That is what is smart about therecommendations of the report, and we fully endorse the implementation of measures that would simplify regulatory requirements; reduce the paper burden; harmonize compliance requirements; lessen the level of duplication and inconsistency across regulations; update legislation; and ensure a more coordinated approach across departments or jurisdictions within Canada, and especially with our major trading partner, the United States.

The need to streamline product and project approvals is an especially important issue, becauseCanada’s notoriously slow decision-making processes have already become impediments toinnovation and investment. We need to focus on the due diligence that must be done to meetregulatory objectives effectively; but there is a lot of time wasted in the process that is notmaking a direct contribution to achieving those objectives. That is the type of non-value-addingactivity that we should be aiming to eliminate.

The recommendations of the smart regulation report are not new; there have been more thana dozen similar reports on what could be done to improve the regulatory process within Canada.Indeed, there is nothing in this report that is really any different from the government's existing regulatory policy. The problem is that the policy, therecommendations contained in this report and others, are not being effectively implemented. Above all, it is a management-of-government issue. More than good intentions are needed to resolveit. There must be political will at the highest level and alignment across all governmentdepartments and agencies, and there must be better systems of transparency, accountability, andresource allocation built throughout the bureaucracy as well.

I will conclude very quickly. In my view, as co-chair of the Business Coalition on Cost Recovery, the act respecting userfees that was enacted by the last Parliament provides the appropriate mechanisms and legalrequirements to ensure that the government's smart regulation agenda is effectivelyimplemented. The act requires departments that levy user fees for regulatory activities toestablish service standards that are internationally competitive; report those service standards, aswell as the fees they collect, to Parliament; and ensure that procedures are in place to settledisputes in an effective way. In these respects, the act simply makes the government's existingregulatory policy legally binding. I would suggest that the first step in implementing a smart approach to regulation would be for Parliament, and this committee, in particular, to holdgovernment departments accountable to the requirements of the act respecting user fees forcurrent as well as future cost-recovery programs.

Canadians expect to see results; businesses can't survive without results. The real challenge here is to translate the objectives of smart regulation into real results.

The CME will conclude our Manufacturing 20/20 initiative at a manufacturing summit to be held inOttawa on February 7 and 8 next year. We will present a call to action to all Canadiansoutlining detailed recommendations and action plans, which come from the meetings we've held across the country and which will be required to meet the challenges of manufacturing.

We'd be very pleased to appear before this committee at that time to brief you on the recommendations and on what we will be doing to put them into effect.

Thank you.

● (1610)

The Chair: Thank you, Mr. Myers.

We'll move to the Canadian Labour Congress, and Mr. Yussuff.

Mr. Hassan Yussuff (Secretary Treasurer, Canadian Labour Congress): Thank you, Mr. Chair.

On behalf of the Congress, I want to thank the committee for giving us the opportunity to present here today.

The CLC represents over three million workers in just about every sector in the Canadian economy. In October, the CLC convened a major national conference on industrial policy. The immediate motivation was twofold. First, we were very concerned about the major structural weaknesses in the Canadian industrial economy and the potential impact of the fast rising Canadian dollar on industrial jobs and industrial communities. Second, we recognized that the labour movement must develop its own policies to ensure they are appropriate to the changing circumstances. We do recognize that our industrial economy has changed over the past 15 years and that we must deal with new challenges, such as the rise of China.

We have said that we need a major national debate on industrial policy and that we are prepared to engage in a substantive discussion with employers and governments over how to create more and better jobs. Labour must play a major role in this debate, as we represent over one-third of the total manufacturing and primary industry work force, and a much higher proportion of workers in the largest and most productive plants.

The Labour Congress believes in a mixed economy. We need a strong public sector and highly productive private sector to support and create well-paid jobs. Wealth creation and high living standards depend on an active government intervention to shape the business sector and to make sure that corporate decisions promote national and regional economic development and job creation. The market plays a key role in shaping our economy, but government must make sure that the market produces the jobs and economic strengths we want.

Manufacturing is a key part of our economy, accounting directly for more than two million jobs paying an average wage of almost $20 an hour. Manufacturing, especially resource-based manufacturing, plays an important part of the regional economy.

The dominant policy approach of the past 15 years has been to leave industrial development almost entirely to the market, leaving corporations with the task of shaping and building our productive capacities. The basic idea has been that free trade, low business taxes, and very limited government support for research and development, will produce a strong and growing industrial base. That has not been the case.

In the past 15 years since the FTA, manufacturing has fluctuated. More than 300,000 jobs were lost in the early nineties because of double impact of the FTA and a very high Canadian dollar. Jobs were slowly regained in the second half of the 1990s as the dollar fell to realistic levels. But then there has been a serious decline in the quality of jobs because of the relentless competitive pressures; work is much more stressful for most workers, and wages have lagged behind productive gains. Corporations have used the threat of relocating investment and jobs to tip the scale of bargaining power against workers and unions. Most of the new manufacturing jobs have been in non-union, small, undercapitalized plants that pay relatively low wages.

Many of the old problems of our industrial economy remain very much with us. We depend far too much upon the export of resources, and have built upon only a weak base of sophisticated, highly productive, knowledge-based industries.

In the eighties, in the run-up to the great national debate on trade, everybody agreed that our manufacturing sector had serious problems. We had some very successful sectors, such as autos and telecommunications, which were built on past industrial policies that had worked well. But compared with the other industrial countries, we were much too dependent upon exporting raw materials. In sectors like forestry, mining, and energy, we were failing to add much value to raw resources before they were exported. We lacked a strong machinery and equipment sector, and had far too few companies investing heavily in innovation, research and development, and training. Compared with the U.S., we had have too many small and relatively unproductive plants.

It is disappointing how little has changed for the better. Today, resource-based products and industrial raw materials still make up almost half of our exports. Energy has become even more important than in the past. Energy megaprojects certainly create some good jobs, but they are hugely capital-intensive projects and create relatively few jobs. There's a real question about the long-term environmental impact.

Our productivity in manufacturing, or output per hour, has lagged behind the U.S., and our industrial structure has not changed much for the better. Our workers are working hard, but they are mainly working with insufficient business investment in machinery and equipment, and they are working mainly in companies that invest too little in research and development, innovation, and worker training. The capital per Canadian worker in manufacturing fell from 71% of the U.S. level in 1995 to just 60% in 2000. Canadian businesses invest only half as much as U.S. business in research and development. They spend even less on worker training.

● (1615)

Today, corporate pre-tax profits are at a record high as a share of the national income, but corporate investment in new plants and equipment has failed to increase at anywhere near the same pace. We fall well behind innovative countries like Sweden and Finland when it comes to corporate and public investment in research and skills.

Our industrial economy has a wrong mix of industries. Our auto and aerospace, steel and forestry, pulp and paper, and mining industries are just as productive as those in the U.S. and anywhere else in the world, but we have a weak base of very-high-productivity, knowledge-based, and intensive machinery and equipment industries. We sell raw resources to China and developing nations, but far too few sophisticated products. We're also weak in many important service industries. We are not broadening the industrial base that we need to sustain and create skilled, well-paid jobs in a changing world. These weaknesses will become even more clear now that we no longer have the cushion of a weak Canadian dollar. If the dollar stays at its current level, we risk repeating the industrial carnage of the early 1990s, and the rapid rise of China as a major industrial part of the world market poses important long-term issues.

Ultimately, Canada's competitive advantage in a world of abundant, cheap, and increasingly skilled labour lies in two areas. Resource industries will remain here because the resources are here, and they are very important. Beyond that, assuming that Canada will remain very open to world trade, we will have to produce goods and services that command decent prices in world markets because they are unique or of a very high quality. That demands high levels of investment in research and development of new products, advanced machinery and equipment, and education and worker training.

What should we be doing better? Let me suggest that a more broadly based approach to tax cuts is not the way to go. The corporate tax rate has been cut by one-quarter over the past years. Tax rates are at least comparable to the U.S. tax credits for research and development, the most generous in the world. Taxes are only one part of the corporate investment decision.

In our view, we need much more targeted measures to support job creation investment. Recent government support for a major new investment in the auto industry will create and anchor many new jobs at a much smaller cost than any other corporate tax cuts. We support strategic government support for major private investments that will secure and expand our industrial base. Support for programs like Technology Partnerships Canada should be available to a wide range of industries.

On the tax side, we have no problem with supporting real corporate investment in new plants and new capital equipment through appropriate depreciation rates, but we do have problems with giving yet another tax cut to the banks.

Labour wants to be involved in the development of sectoral industrial strategies. Unions like the CAW in auto, CEP in energy and forests, and the United Steelworkers in steel have some good ideas about our strengths, our weaknesses, and what should be done to secure and create jobs. We have some expertise in sectoral councils in training areas, and want government to involve labour more closely in the industrial development strategy.

Let me also suggest that we need to look at the importance of public investment, and not just private, as a source of higher productivity and better jobs. Studies show that public investment in transportation infrastructure, for example, can create big economic payoffs. The same is true for public investment in education systems and in university research. When corporate profits are high but business investment is weak, it is far from clear that the best returns come from tax breaks rather than high public investment.

The CLC recently identified a major gap in the so-called knowledge-based economy: the lack of training opportunities for employed workers. Employer training goes mainly to managers and professionals, but the skills of ordinary workers are every bit as important to our future prosperity. We are calling for EI-supported education and training leave, so that workers can take a few months off the job, with some income support, to upgrade their skills. We want to see pilots, such as a pilot in manufacturing, to ensure paid training leave meets both worker and employer interests.

We also need to think very seriously about how industrial strategies relate to transitions we need to make on a much more needed energy-efficient and environmentally sustainable economy. We need to take energy conservation and renewal energies seriously. We need to co-create tens of thousands of new jobs in everything from retrofits of buildings to industrial processes, to the development and production of energy-efficient cars, appliances, and machinery, to the development of new forms of energy production, such as wind and solar power.

● (1620)

Taking Kyoto implementation much more seriously would allow us to move much further and faster than the U.S. and develop the kinds of industry capacity that will be in demand in the future.

In closing, I look forward to your questions.

The Chair: Thank you, Mr. Yussuff.

Mr. Whyte, are you going to speak for the CFIB?

Mr. Garth Whyte (Executive Vice-President, Canadian Federation of Independent Business): Both of us are. We'll be within ten minutes.

Thank you, Mr. Chair, and thanks for inviting us. And I want to commend the committee members for showing up. We appreciate it. We know how busy you are.

Several of us presented before the finance committee, and we had more presenters than we did committee members, so it's really nice to see you guys showing up.

Mr. Werner Schmidt (Kelowna—Lake Country, CPC): Now you know which is the best committee.

Mr. Garth Whyte: Yes, keep it up.

I'm Garth Whyte. I'm executive vice-president of the Canadian Federation of Independent Business. This is my colleague, André Piché, who is responsible for national affairs within our organization.

You have a package in front of you. There are four pieces in that package: a deck we're going to be walking through and presenting to the committee; we have this quarterly business barometer, which I'll be referring to; and then we have just a summary piece to the pre-budget submission we'll be giving to Minister Goodale, which we presented to the finance committee; and also "Fostering Economic Growth and Entrepreneurship: A 12-Point Plan". That's all within your package and we have it in French and English. The details are on our website, but for the committee we have lots of reports based on thousands of surveys. Whatever this committee needs, we'll get to you.

We hear weekly from respected economists about their predictions of Canada's economic outlook. Last week we read in the paper that several economic experts were downgrading their predictions for the economy, based on Statistics Canada's previous day's reporting of the first quarter results and second quarter results, and based on the dollar.

Obviously, it's important to hear their opinion, but I think it's just as important to listen to the opinions of entrepreneurs like Gord Wiebe, who founded All Weather Windows 25 years ago. Gord started his business 25 years ago with nine employees and today he has 600 employees throughout Canada. Gord may not know very much about the economy, but he does know about his own business, his own business growth expectations and how he is going to employ people, and he's an expert in that regard.

Today we want to talk about the importance of small and medium-sized enterprises to the Canadian economy. We want to talk about the small business owner's outlook, and then we're going to focus just on two issues: paper burden and the shortage of skilled labour.

Before I move into the second slide, I think it's important to put it in some context, and our context starts as of September 11, 2001. It was a terrible day. We saw the image of the Twin Towers collapsing and you saw the image of the economy collapsing at that time. At that time the Canadian Federation of Independent Business internally asked, what can we do? How can we help?

We have 105,000 business owners across the country. We do 4,500 small-business visits a week, week in and week out. We thought we should survey our members on an ongoing basis about their expectations of the economy and how things were going. Not surprisingly, they also read the news, they also saw TV, and they were very nervous but they steadily improved. Their outlook steadily improved, and we had meetings with Bank of Canada Governor Dodge and he would ask us about our bed and breakfast businesses, about our small manufacturing businesses, about regional businesses, and what was happening.

We'd meet with Finance Minister Martin at the time. We'd meet with the finance committee. And then I remember in March 2002 we met with several of the big business groups and everyone was talking about how badly the economy was going, how terrible it was. And I remember debating with my colleagues, saying we can't release what we're about to release, but we did.

On the very day that Nortel was cutting 15,000 jobs we came out with our study, which said that small-business owners were about to fill between 250,000 and 300,000 jobs, and we were wrong. It was 500,000 jobs that were created then, and the economy outpaced the U.S. economy. When everybody else said it was declining, our members said it was improving, and we found that we were both right, large and small.

There are two economies, in our opinion: there is the stock market economy and there's the non-stock-market economy. I want to talk about the non-stock-market economy because one reason Canada's economy did so well—and I think we have to keep reminding ourselves—wasn't because of Nortel, it wasn't because of Enron, it was because of small and medium-sized enterprises. They had a major role to play in our economy.

If I turn to the brief and if I go to the second chart on page 1, you can see there that the majority of businesses in Canada, over 95%, have fewer than 50 employees. But the next page, and this is how when you want to modernize our economic and industrial strategies.... It shows how the economy has changed from a decade ago, or even two decades ago.

As you can see here, 55% of total jobs are now in small and medium-sized businesses. They are 45% of the GDP and they create virtually all the net new jobs being created in our economy. Small businesses are important because they stay in the community, they create jobs in their community, and they help their community grow.

● (1625)

I'm going to refer to our quarterly business barometer. We have an indicator, an index, which is on slide 4, which is based on our index year. We've been doing this since 1988, and we base it on our members' expectations for their own business.

In this case, our most recent was in September, between September 7 and September 17 of this year, and we had a targeted sampling, a random sampling of 2,300 responses. You can see that we were predicting that in the third quarter there was going to be an up-tick in the economy.

If you go to the next page, if you remember, our barometer, our index, is the blue, and the GDP is the yellow. They're virtually the same. They're an incredibly good indicator, not a predictor but indicator, of what's happening in the economy. So Stats Canada may take two or three quarters to come out with their information, but we can give you a pretty good indication next week, actually, when we release our next quarterly barometer, which is picked up by Bloomberg. We'll be releasing it next week, December 15.

It's amazingly close to the GDP and it shows you the power of two economies. They are the canaries of the economy. We feel that as an organization. The first thing that happens when things are tough is members cut fees. Following September 11 our fees were not being cut; our members were not quitting, and they hung in there and Canada's economy has done well.

I have to say, we feel left out right now with the throne speech. We feel left out with the economic update. There was no mention whatsoever about the power of the small-business community in the job creation. We would really feel left out if we're not at least recognized by this committee.

We asked our members again, in the September 7 to September 17 survey, about their expectations, and you can see in slide 6 three different categories. The red category is now compared to 12 months ago, the green is expectations three months from now, and the blue is expectations from 12 months from now.

Entrepreneurs are eternal optimists, but as you can see, 50% feel that their business will be stronger over the next 12 months, 37% say it will be the same, and 13% say it will be weaker. What does that mean?

The next slide talks about their employment plans, which has been money in the bank as a predictor. Again, we can ask CFIB or major organizations what they think about the economy, but when you ask an entrepreneur about their employment plans, they are the expert. Some 28% said that they will increase employment, full-time employment, only 8% said they will decrease it, and 65% said no change.

I threw this slide in on impacts of the Canadian dollar on small and medium-sized enterprises because I expected we would be talking about the dollar. We asked our members, what impact does the Canadian dollar have on your business? In response, 50% said they didn't know. They said no impact, they don't know. Some 29% said a lower dollar helps, and 21% said a higher dollar helps. I suppose where you sit is where you stand. But basically it depends on which sector you're in. It also depends on the degree of the change in the dollar, not just the level of the dollar, but how quickly that dollar increases. If you're in trucking, if you're in a contract and the dollar increases past that contract, then you're going to have to eat it and it's going to hurt.

In the next slide we talk about major business factors affecting their expectations. We asked them, over the past 12 months what was positive or negative in helping you come to decide whether you think you had a better year? You can see a little different categories we have: customer demand, many said it improved, many said it worsened; interest rates, again it's not a big factor.

But there were big ones that we have found across the country, consistently. Number one, and we mentioned it at this committee before the election, was insurance premiums. Others were input costs such as energy prices, which are really the ones that dampen their economic outlook.

● (1630)

I'm going to do a quick commercial before I pass it on to André. We had 30,000 faxes—we get 500,000 faxes a week—on insurance costs: availability of insurance, rising costs of insurance, and poor notice of insurance. We've been asking this committee to review it, just to find out all the different reasons why our insurance may be out of whack and why we make sure we don't do it again. I do not see why we do not look at it and study it. We're really making a pitch there.

André, I'll pass it over to you.

● (1635)

Mr. André Piché (Director, National Affairs, Canadian Federation of Independent Business): Thank you.

I will go quickly, Mr. Chairman.

Back in 2002, the CME, CFIB, and RBC Financial Group commissioned a study. This study, which I will table with the committee, is a survey of 800 small-business owners in Canada versus 400 business owners in the United States, comparing notes in terms of their attitude towards the economy and towards entrepreneurship. Essentially, the three findings of that survey were that Canadians are just as entrepreneurial as Americans as far as small-business owners are concerned; on both sides of the border SMEs are dynamic and innovative, according to certain measurements that were made; and finally, the core challenges that small-business owners face are essentially the same, whether you are on the U.S. side or the Canadian side.

What you have on slide 10 here is one important difference. If you look at the first graph, what it shows is that perceived barriers by small-business owners in Canada are much higher than the perceived barriers in the Untied States.

We did some digging, and we do a lot of surveying of our members, so in slides 11 and 12 you get the opinions of our members on various issues related to their priority for government action.

On slide 11, as you can see, the top preoccupation of our members is the total tax burden. In that regard, I won't spend much time. We already have our recommendations laid out in our kits, but needless to say, it is a recurrent theme that comes up all the time.

The two areas I would like to focus on in those two slides are government regulations and paper burden being such an important preoccupation and also the issue of availability of skilled labour. And this is where I'm going to turn next.

On slide 13, what you have here is a survey that was done of the prairie provinces and B.C. This slide shows you that for 14% of respondents they spend between six and nine hours a week just filling out paperwork. Another 10% fill over 10 hours a week in paperwork. This shows that we have a major problem that we need to address. And when we talk about smart regulations, for small-business owners this is where the rubber hits the road.

[*Translation*]

Graph 14 gives the result of a study we conducted in Quebec on the administrative costs of regulations, per year. These results are about the same as those of an OECD study and a study conducted in the U.S. It shows that those costs are huge for a small business compared to a very large company. It is another indication that we must act rapidly.

Graph 15 deals with the shortage of skilled labour. We can see that concerns about a lack of skilled labour are very high. This is something we have measured for several years and which is a major concern for our members.

[*English*]

Garth mentioned earlier the fact that we had found that 265,000 jobs were left unfilled, and graph 16 shows you this. In fact, we had one in four of our members who was telling us that they had vacant positions available, but they could not fill them. And furthermore, many of those jobs had been unfilled for more than four months.

In the next graph what we show here again reflects what Garth talked about in terms of employment growth, which is that the expectations are bullish over the next three years, but what we have to worry about is that a lot of our members are telling us that it's getting harder and harder to find the skilled labour they need. So we see there both a challenge for the government, but also an opportunity to do something, given that we still have over 7% unemployment in Canada.

In conclusion, I think the SME sector is the key engine of growth in Canada, as the finance minister said. We focus in this presentation on two issues that really matter to the small-business community in Canada, and we feel that whatever we put together we've got to ensure that it does improve the innovation and entrepreneurship climate for small-business owners in Canada.

Thank you.

The Chair: Thank you, Mr. Piché.

I'm going to start with Werner. I'm also going to try to keep good track of the time so we can get everybody in. We've already started off well in that regard.

Mr. Werner Schmidt: Thank you very much, Mr. Chairman.

We'll start off, I hope, in a good way so we can all move along, because I think we all have a great interest in this.

I want to thank the presenters here with us this afternoon. It's very good to see you.

And don't be so terribly defensive, Garth. You are here. Feel important—it's okay—because you are.

● (1640)

Mr. Garth Whyte: Thanks so much.

Mr. Werner Schmidt: I think we need to be that way.

I'd like to address a question to Jayson Myers. It has to do with the second paragraph on the last page of your brief. You say that as co-chair of the Business Coalition on Cost Recovery.... You refer here to the act respecting user fees, and that apparently the government's smart regulation agenda is effectively implemented as a result of that act. I'm not sure whether you're dreaming in technicolor or whether in fact it isn't clear what is meant here. Could you explain exactly what's meant?

One of the reasons this committee is asking you to appear, and has asked Garth and also the Canadian Labour Congress to appear, is to have the total sector. Manufacturing is a very big part of our economy. Small business contributes more to new job creation than any other sector in the economy. The labour people are here to give us their perspective.

We've seen no evidence at all of the effective implementation of the smart regulation report. One of the reasons this committee is studying it is that all across the sectors—it didn't matter where we went—we found that the regulative burden is so severe that it is causing us severe problems. The taxation thing is the other one.

I'd really like you to explain what you meant by that paragraph.

Mr. Jayson Myers: Well, really, I'd say we haven't seen any evidence of effective implementation either.

Mr. Werner Schmidt: That's good to hear. Well, no, it's not good to hear, but at least we're not out to....

Mr. Jayson Myers: The act respecting user fees, which applied specifically to regulatory issues where a user fee was being charged by a government department—I wanted to make the point that effective implementation of that piece of existing legislation would be a good starting point for trying to build effective implementation for the smart regulation interpretation.

Mr. Werner Schmidt: That clarifies it beautifully; I agree with that. That's good.

The other question I wanted to ask you is about the 20/20 report. It's coming out in February, so you're about three months earlier than you thought you might be.

Mr. Jayson Myers: We've distributed the interim report. That's the report of the key issues that have been raised by the manufacturers. The final report will be issued February 7 and 8.

Mr. Werner Schmidt: Mr. Chairman, the thing that really excites me about the fact that the three sectors are represented here this afternoon is that we have a common thread running through all of them—the smart regulations, or the burden of excessive regulation and the bureaucracy that's involved. And the second thing is about our tax regime.

I know that the Canadian Labour Congress representative suggested that corporate taxes have been cut enough, yet we find that the people who actually invest the money say there isn't an incentive for them to put money to work. So I'm wondering whether Garth, Jayson, and Mr. Yussuff could deal with this particular issue. We hear this almost as often as we hear about burdensome regulations.

Let's see if we can get a meeting of the minds here as to what ought to happen to really bring about this industrial policy that will make Canada the global competitor it ought to be.

Mr. Jayson Myers: Maybe I could start off.

Today Statistics Canada released a report on investment in new technology and the capital stock. It showed that, at least in manufacturing, for the last ten years the rate of investment has not been enough to even offset the depreciation of the capital stock. The current value of the technology we have in place in manufacturing is actually in decline. And that's a very different situation from in the United States. It's one of the major reasons why our rate of productivity performance has been very slow, and why the gap in manufacturing productivity between Canada and the U.S. has grown.

So I agree. As Hassan was saying, I think one of our major issues here is how we attract, how we retain, and how we grow investment in this very important sector of Canadian industry. The rate of investment, particularly among smalller manufacturers, is lagging, of course, even behind that of larger manufacturers.

Although our nominal tax rates look competitive, when you look at the effective tax rate, or the amount of taxes actually paid by the manufacturing sector as a proportion of total revenue, it's about seven points higher in Canada than it is in the United States, on average.

In my view, there are two issues. One issue is how do you speed up the replacement of existing technology? I think you can do that by providing an incentive through an accelerated depreciation. The rules around accelerated depreciation in Canada are...it takes about four years longer here, about 50% longer in Canada, to write off manufacturing and processing equipment than it does in the United States. That's a priority, in our view.

The second view is that if you are going to provide a performance-based incentive for investment in technology to overcome this gap in the marginal effective tax rate between Canadian and U.S. manufacturing, then a very effective way of doing it is through some form of investment tax credit that would then close that gap. In that way you're rewarding performance.

I think there are very strong arguments for moves in both of those directions.

● (1645)

The Chair: Thank you, Jay.

Mr. Jackson, and then Mr. Whyte.

Mr. Andrew Jackson (Senior Economist, Canadian Labour Congress): Just briefly on the tax issue, I think I actually agreed with most of what Jayson said. It really is striking, in the case of Canada, that the level of corporate investment in new machinery and equipment in particular, but also in research and development and training, has significantly lagged behind the U.S. level. That's a serious problem.

I think we're sort of sympathetic to the argument of the manufacturing sector that when it invests large amounts of money in new machinery and equipment, new plants, the rate at which investors can depreciate that investment for tax purposes should at least be in line with the economic life of the equipment. We really don't have a problem with providing some support through the tax system for companies that are making real investments that are going to secure and help create jobs.

I guess where we might differ is on how much general corporate tax cuts relate to that objective. The fact of the matter is, we did cut the general corporate tax rate from 28% to 21%, with apparently very little impact on the rate of investment. When you think about it, if you cut the general corporate tax rate, you end up giving a big tax cut to sectors of the economy that are not really very exposed to international competition at all.

So in the name of international competitiveness, we've cut the taxes by a lot on the banks, who are really effectively protected from foreign takeovers. Foreign banks have a lot of limits on how they operate here. This results in quite a lot of lost revenue, and it does nothing for the rate of real investment in the manufacturing sector of our economy.

I guess we'd say we're quite sympathetic to the case for some tax support for real investments, but the general business tax argument I don't think holds a lot of water.

Finally, I think we should look at those targeted supports that one might make relative to other measures. If you take the recent support for major auto industry investments, you know to a certainty that you're getting a very high rate of leverage. Every public sector dollar going to support those investments is going directly to jobs, with no leakages. There's really an argument for efficiency in public spending to be made here.

The Chair: Mr. Whyte.

Mr. Garth Whyte: Thank you.

Our members don't just invest capital, they invest in people, and they prove it in where they identify their tax cuts. When a larger firm has to cut, they cut their people. Smaller firms don't cut people; they cut their bottom line. That's been shown.

We are going to come out with a tax study—we'll be releasing it shortly, probably in the new year—on different things. There's some in our pre-budget submission, which we'll get to you.

We asked small-business people what their priorities were for tax cuts. Their number one priority was personal income tax. Number two was for fuel and other taxes, because their energy inputs are hurting them. Number three was EI premiums. We hate to see the EI surplus continue to grow and also to see it go to Bombardier and to General Motors. Our members don't support grants to business.

When we asked about priorities for personal income tax, they said to reduce PIT rates across the board, and second, to increase the basic exemption. It's quite amazing, but that's what the business owners in our sector are saying.

When we asked about the small-business priorities for corporate income tax cuts, the first was to increase the small-business threshold to $400,000.

Our challenge in Canada is that we have two to three times fewer mid-size firms.... We have to grow our smaller firms into mid-size firms like Gord Wiebe's company, and there are notches and thresholds that stop that.

We've talked about corporate income tax cuts, and they want to increase the small-business threshold to $400,000, which many provinces are currently doing. They say to reduce the small-business rate, increase the capital cost allowance, and then to eliminate the corporate surtax, which is for reduction of the deficit, which is not there any more. Finally, only a third of them say to reduce the corporate tax rate. That was their fifth choice.

I'm just throwing that out. We have more, but that will give you some of the background on where we stand on that.

● (1650)

The Chair: Thank you, Werner.

We're going to go to Serge.

[*Translation*]

Mr. Serge Cardin (Sherbrooke, BQ): Thank you, Mr. Chairman.

Good evening, gentlemen. It is certainly very interesting to see the different perspectives and your optimism. Maybe you did it before I arrived, but I did not hear you say much about globalization and the new way of doing business. However, you seemed rather optimistic concerning the capacities of manufacturing companies and small businesses which are creating the bulk of new jobs.

As for the issues you raised earlier, some of you said that we should add value to our natural resources. We know perfectly well that in the global market labour costs become an important component. Several countries have labour costs comparable to ours while others have much lower costs. When we look at priorities concerning taxation or productivity, certain things like a reduction of payroll taxes are often mentioned and if you try to increase innovation and productivity, this is also directly related to salaries. In the domestic market there are certainly things that we can easily identify and improve. However, in a global market—given the importance of exports—we have to compete with China, for instance, or other countries that are advancing in major strides and that have workers more and more able to produce efficiently.

This is the issue. Some approaches are rather targeted towards our domestic market. Yet, we can see that seeking help in order to sell to foreign markets is not really a priority for small businesses. So there seems to be some contradictions in that respect.

Those were my comments.

[*English*]

The Chair: Mr. Whyte.

Mr. Garth Whyte: I would like to bring up an issue that brings in both tax and paper burden.

I was on the committee on cost recovery Jay was co-chairing. The hidden tax is cost recovery. What we found was that it wasn't fee for service. As a matter of fact, they're fees for money, and it really hurts our firms globally. It hurts our R and D.

We had an example we used to bring up of a company in the Maritimes that had a drug for asthma. We were the 16th country to approve it; it was approved everywhere else but in Canada. We get higher fees and slower service.

We pushed this act and got it passed, a private member's bill supported by all four parties, but currently it has not been implemented. Here's an example of where we could help in terms of the fees and the globalization, by making the fees linked to service. This bill asks to have a listing of the fees, and it says if a certain government entity does not provide the service in time, the fee is reduced. We need accountability in these fees, which are reaching upwards to $4 billion. It's a hidden tax and it's a hidden paper burden issue that is really hurting our competitiveness.

I'm sneaking this in on your comment.

We have a couple of criticisms of this report that I hope will come out in the questions. One was that this committee—and I personally brought it up with them three times when they asked for our advice—should have referenced Bill C-212, the cost-recovery bill, and asked how it would be implemented. It's not even referenced. That's the frustrating thing; we don't even know how it's going to be implemented. Yet it's a good first step in helping with globalization, helping with company growth, and reducing the overall tax imposed by these escalating fees.

● (1655)

The Chair: Mr. Myers.

Mr. Jayson Myers: This is just to make a general point, but it's really building on what Garth has said more specifically.

To the extent we can build a competitive business environment in Canada, we're strengthening the ability of Canadian companies to do business around the world. We need a world-class base for business here. We're also of course strengthening Canada as a location for investment; I think that's important.

One of the entrepreneurs who participated in our Manufacturing 20/20 sessions made the point that everybody needs a China strategy today whether or not you're operating in China. I would say the same thing to the federal government, but not necessarily just with respect to China. The globalization of business has created a very new type of business model and a very different international business environment with very different policy implications.

We're looking at increasing competition, and it's not just from low wage and low labour cost jurisdictions. China graduates 450,000 engineers a year. Competition from China is increasingly sophisticated. We don't even have 70,000 professional engineers in this country, so the type of competition coming in from China is more and more sophisticated, but that's what business is all about.

The key is, what advantage is there for Canadian business in that much more global business environment? Looking at it that way, we need a strong competitive environment for doing business here in Canada. We need to ensure that the rules of the game of trade are effectively enforced, and frankly, we're not doing the job we should be doing there. We have to do that in relation to our major trading partner, the United States, but we also have to look at the requirements of business with respect to competing supply chains and to investment that is much more global. I think the implications of that for public policy are far-reaching.

That's really the point of our Manufacturing 20/20 initiative, to say this is not business as usual any more. Business strategy has to change and public policy must change to reflect that globalization.

The Chair: Is there a CLC comment on Mr. Cardin's question?

Mr. Hassan Yussuff: I'm not sure if it addresses it directly, but I wanted to add to the debate about smart regulation. I think there's a concern generally about the whole area of food and drugs in terms of how smart regulation might compound problems of public safety and there's a need to take care in what we actually do.

Generally, in responding to the competitive nature of countries, whether it's China or other countries we're struggling with, as Jayson pointed out, China is able to produce 70,000 engineers in a year because they actually use public dollars to train them. I think the recognition is that in other countries they have a different system in what they use to develop their economy. For us, we don't have those kinds of tools in our country. We need to recognize that if we want to compete. We need to ask what tools do you have when your competitors actually have other public institutional frameworks to do certain things where we have said, look, that's not our responsibility, it's somebody else's job to take care of that. I think there's a real recognition that there are some common approaches and challenges where we would all say we need some solutions, but there are also some different approaches in how we can get there.

I heard my friend from the small-business sector talk about the skill shortage we face in our country, and I think it's real. There is no magic in how you solve this, because it's going to require the government to play a larger role in how we develop and train people in this country. Essentially, as we see, we're losing our skill capacity in this country because essentially we're not putting in the investment that they are putting in to see that happen. In some areas you'll see a lot of commonality, but also there are some differences here.

One point I wanted to make earlier was that in the marginal difference in the tax rate between Canada and the U.S., we do have a national health care system here, which we pay for. We also have cheaper energy. There are some reasons for explaining the differences that exist between our two countries, not to belabour that point.

● (1700)

The Chair: Go ahead, Serge.

[*Translation*]

Mr. Serge Cardin: As concerns skilled labour, have your different organizations negotiated, signed agreements or studied the issue with educational institutions in order to solve the problem more rapidly? I know that in my area, businesses that were requiring skilled workers have, with the help of the responsible ministry, put in place training programs which have rapidly produced the skilled manpower required. As an organization which has members throughout the country, are you also asking for that type of initiative?

[*English*]

The Chair: Thank you.

I can give you 20 or 30 seconds each if you'd like.

Mr. Piché.

[*Translation*]

Mr. André Piché: We undertook a detailed study not only on the lack of skilled workers, but also on the whole issue of on-the-job-training as concerns small businesses, we realized that small businesses provide most of the training in an informal rather than formal way contrary to what is going on in the big businesses.

At the end of our report, we have made recommendations not only for employers, but also for education institutions and governments about the cooperation needed to solve that problem and improve training.

[*English*]

The Chair: Mr. Jackson, and then Mr. Myers.

Mr. Andrew Jackson: I'll make a couple of quick comments.

I think as a country when you really look at the numbers of the school results today, the school system really doesn't do a bad job for the most part. We graduate a lot of young people from higher education compared to other countries. One of the huge gaps in our system is the ability of workers to train and retrain over a lifetime. Once workers enter into employment with the skills, capacities, and education they have, what opportunities do they have to get further training?

All the evidence shows that employer-provided training and training in workplaces tends to go overwhelmingly to managers and professionals rather than to ordinary workers. I think the proposition we would make is quite simply if we're going to build a knowledge-based economy, that's not just the skills of the top 10%; we need to train and retrain much deeper in the workforce. There are a lot of problems in doing that from an employer perspective. There is the problem that employers who do train, are responsible, and run those programs often lose the workers they've trained. It's not just a matter of doing it on an employer-by-employer basis.

There are a couple of things I would flag as potential solutions. The first one, which we've been talking about a lot, is the possibility of workers being able to access education and training leaves under the employment insurance system to get a period of income support from the EI system to go to college, or whatever, for a few months or a year. I think the employer, hopefully, would provide an opportunity for that worker to return to the job, and that the training they would take would mesh with the interest of the employer. We really just want to pilot some kind of system like that. We're talking about that in the health care sector, but we would really like to launch a pilot like that within the manufacturing sector so we could learn from that experience. I think support from this committee for that would be really useful.

The other thing we see as a bit of a model is the system in Quebec, where there is an expectation on employers to devote a certain amount of payroll to training. That partly gets over the problem for the small-business sector. If they don't want to provide the training themselves then they pay 1% of payroll to a sector training body that has the capacity to take on that training. We think we have real lessons to learn from the system they've developed in Quebec, which does seem to be quite effective, by the way.

● (1705)

The Chair: Let's see if we can get yours, Mr. Myers, in a few seconds if we can.

Mr. Jayson Myers: The need for skills upgrade extends to all levels. One of the largest requirements is for people with employable skills and practical experience, people who are able to solve problems and who can come to work on a daily basis and stay there. Technical skills, trade skills, as well as management, engineering, and marketing—it's across the entire spectrum. I think there are some real issues, as Andrew is pointing out, in trying to increase the degree to which employers provide that training in-house on an informal or formal basis.

My view is that the solutions to this are very local. Second, the solution is not something for any level of government to do alone; it depends on partnerships, and above all it depends on the employer sector to lead to define what they require and bring those partners together. I think that's done best at a local level. Third, if you want to see some effective partnerships at work, the *Tremplins* program in Quebec is an extremely useful example of where schools, training institutions, and manufacturers have come together to provide some joint training programs. I think that's an extremely good example of what can be done across the country.

The Chair: Thank you, Mr. Myers.

Andy Savoy, please.

Mr. Garth Whyte: I just want to add something.

The Chair: I thought maybe you were going to pirate in on another piece.

Real quick.

Mr. Garth Whyte: Real quick, we would not support using the EI system for training.

The Chair: Andy.

Mr. Andy Savoy (Tobique—Mactaquac, Lib.): Thank you very much, gentlemen, for coming.

Thank you, Mr. Chair.

My concern is surrounding innovation, value added, R and D, and that whole realm. When we've looked at the investment in R and D in Canada, we've seen some estimates of as low as half the investment in R and D being made here as in the U.S. But I don't think R and D is the entire answer to our situation. We have workplace innovation unto itself, and we have technology transfer. There are a number of ways to look at the innovation agenda, let's say.

In terms of R and D, it's very concerning that we've seen our environment, the R and D tax credit, for example, which is very lucrative in Canada...at 35%, it's one that would generally attract R and D investment.

Looking at the process we're going through, if you had a strategy moving forward for how we could raise the innovation profile within the workplace so increased investment in R and D would follow by virtue of doing that, what would that include? How would you deal with technology transfer, workplace innovations specifically, and R and D?

I'll go across, and I'd be very interested to hear what labour has to say on this as well, because I think they are a critical component.

The Chair: Who wants to start?

Mr. Myers.

Mr. Jayson Myers: Very briefly, I agree with you that R and D is not the be-all and end-all of innovation. A great deal of that innovation depends on design, on process improvement on the shop floor, and on improvements to the product end service that's offered. R and D alone is a very small component.

My concern in an approach to R and D is that we're trying to push new ideas into the marketplace. The number one challenge for companies bringing new products into the marketplace has nothing to do with access to research and development; that's fairly far down on the list. The number one concern is that there aren't any customers there to buy the product.

In my experience, we have a lot of good patents from a lot of good R and D that's done in Canada. The problem is getting that to the market and making sure companies are able to build the investment and the commercialization around that product once it gets there. There has to be a much more market-driven approach to support for innovation and R and D.

This is in large part an issue of investment in technology but also of the skills of the workforce. If we can solve those two issues in particular, we're well on the way to solving some of the innovation issues here. Business will pull the innovation and the research and development to bring the products to market, but we have to make sure the investment in the skills base is there.

It's good to support R and D and good to be able to link that with business, but I think even the most innovative companies across the country would say it shouldn't necessarily be the job of the universities to be pumping out entrepreneurs in the high-tech business. It should be the job of the universities to provide a research base and an education base for our young people.

● (1710)

The Chair: Mr. Whyte.

Mr. Garth Whyte: I want to add two other things. In one case study of the R and D tax credit, they found that small businesses weren't applying. Why not? Because it cost them ten grand to fill out the application form. We talked to accoutants, and they were actually telling people, don't apply; it's too onerous to fill it out. The second thing is, it's pretty hard to do R and D when you're spending six to nine hours a week filling out paper burden stuff.

I'm going to slip this in, Mr. Chair. One of the other criticisms we had on the smart regulations was, because they didn't talk about the cost recovery bill, they didn't talk about the budget announcement, which was supported by all four party leaders. It was that there's a paper burden committee for small business being established that's supposed to report to this committee. I'll be co-chairing that with the industry department to look, not at getting rid of the regulations, but at reducing the number of transactions.

This is what B.C. has done. They had 400,000 transactions and they said they wanted to cut them by a third. You don't lose the principles of the regulation. You may not have to lose the regulation, but you can lose the number of times you have to fill out things or follow it through.

We'd like to focus on small firms. For that to work, it has to be measured, it has to be accountable, and it has to be ongoing. We're finding paper burden and regulation can be a real impediment and damper to R and D generally.

On the other point, I couldn't agree more with Jay; again, he's right. It's the application sometimes of the technology, not just the R and D. Sometimes people say, oh, this is high-tech, medium-tech, or low-tech. One of our members is the one who developed.... She's a hairdresser; what does she know about technology? Well, she's the one who put the person's face in the computer where people tried different hairdos. That was passed all around North America.

There are different ways. The more we try to target things, the more we run into problems. We should try to loosen it up to allow people to be entrepreneurial and to try to develop these things as well.

Of course, I couldn't agree more, too, with the Canadian Labour Congress in that our education system needs some money put into it. That needs to be targeted more.

Finally, I'll go back to education. We have people graduating and they're all taught to be employees and not taught to start up their own business. Sometimes in major courses there's not even a half-course on how to start up your own business.

The Chair: Thank you, Garth.

Andrew Jackson.

Mr. Andrew Jackson: I have just a very quick comment. It's absolutely right to point to the fact that we really have a bit of this conundrum in Canada on the tax treatment of R and D. It's extremely generous. In many ways we have the incentives all right but the level is still disturbingly low.

What's even more disturbing is the last time I looked at the numbers, there was a very high proportion of the R and D in Canada being done by just a small handful of companies: the Nortels, the Bombardiers, and the drug companies. Quite a small number of companies do an awful lot of the total. You're up against a really hard problem, which is that when we lack a strong base of firms with capacities in growing areas globally, how do we create those capacities when they're thin on the ground to begin with? I don't think there's a very easy answer to that.

I just want to mention in passing that I've always heard very favourable reports on some of the industrial outreach programs of the National Research Council. Essentially, they recognize there are a lot of small manufacturers out there investing in new machinery and equipment to an extent; they're trying to find niches. But it's just in the nature of small business that they don't have a lot of engineers on staff. They lack a lot of capacities. In the same way the old agricultural extension services used to go out and teach farmers how to be more productive...that kind of outreach program to small business strikes me as making a lot of sense.

My impression is that they were fairly deeply cut back a decade ago, though there's been some recovery since.

I would really encourage the committee to have some people in from the National Research Council who run those programs and from businesses that use them, because it is a really important area. You don't expect a small business, a 10-person company or a 50-person company, is going to have a whole R and D division. They need to access capacities in the wider sense.

● (1715)

The Chair: Thank you, Mr. Jackson.

We'll have a short question from Andy.

Witnesses, please try to make your answers brief if you can.

Mr. Andy Savoy: Actually, you led to where I was going. I'm a big fan of shop-floor innovation, and in fact empowering your employees and management to look at shop-floor innovation. The National Research Council's IRAP program is, I think, particularly geared toward that.

I want to get your evaluation of IRAP, and potentially how we could improve upon the IRAP process.

Mr. Jayson Myers: I agree with Andrew. I think this is probably the most effective program the federal government has to assist small-business innovation; I think it's extremely valuable and there should be more ITAs, the technology advisers. I think they should look across technologies and there should be more attention paid to what they have to say.

We're talking about bank financing, for instance. I'd love to see a program where banks refer to the technology advisers for risk assessment before making a loan to the manufacturers. I think there are a lot of opportunities we can build on through the IRAP program.

The Chair: Anybody else on IRAP? Mr. Whyte.

Mr. Garth Whyte: It's a good program. The issue is that the more perimeters you develop.... Most of our members don't know about these programs. So you'll hit a niche; you'll hit a portion.

So there are two strategies: there's IRAP, which is good; there's also facilitating and removing some of those barriers to allow innovation to happen where you least expect it. You have to facilitate and allow that to happen. So there are two strategies, because there are surprises that happen all over the place that people do not predict or understand. We haven't had much of a discussion on this, but that's why a discussion on the paper burden from regulation is another avenue we really have to look at.

The Chair: Thank you, Andy.

So it's going to be Peter, Michael, Alan, and Paul.

Welcome to the committee, Peter.

Mr. Peter Stoffer (Sackville—Eastern Shore, NDP): Thank you, Mr. Chairman. One feels like the kid on the baseball field who gets picked last to play.

Thank you all very much for coming. And thank you, by the way, for the reports that are sent to our offices on a regular basis, especially from the CLC, the manufacturers, and you folks, who are very active in sending the surveys of businesses in our area, which I find very helpful.

Mr. Myers, don't take this personally, but I get very nervous when you say "a China strategy". The other day I read a report that 4,000 miners have been killed in China just this year alone, let alone 122,000 occupational deaths in the country of China, let alone their human rights abuses and everything else. When you mention a China strategy, I get very nervous for workers and their families. If you meant the government investing in their people for education and other purposes, then by all means, I fully support that.

It's amazing, Mr. Chairman, how we forget about Ireland and what they went through. They used to be called the "Celtic Tiger", if I'm not mistaken. I think that example would have been a little better to use. I'm just speaking from a labour point of view on that.

One thing I would like to ask all of you.... Mr. Whyte, in Harbour Breton just recently, 380 people lost their jobs because the fish plant shut down. If EI is not meant to retrain them and look after their needs.... As you know, when the great EI cuts started in 1995, many businesses lost economic opportunities from former employees and people who lived in those rural communities who would spend in the pizza place, the hairdresser, and on taxis, whatever it was. The EI fund offered them some assistance until they got another job, but in many cases they couldn't get another job unless they were retrained.

If not from the EI fund, where would you imagine those funds for training dollars coming from? In Nova Scotia, one thing that I find very helpful is that people are able to access EI funds, and while they're on training—and some programs are actually paid for by the EI fund, but not always—they can collect EI and have their program paid for while accessing retraining, especially in the oil and gas sectors. I find that very helpful, including for long-haul drivers, you name it.

So if it's not from the EI fund, where? That question is for all three of you.

Also, there is the problem the Auditor General mentioned a year ago regarding the tremendous GST fraud that is going on in this country, the underground economy, which affects all of you very greatly. A friend of mine owns a Canadian Tire store, and he gets royally pissed off every time he goes to the flea market on a Sunday morning and sees his batteries and his small appliances being sold on the flea market table. I would like to have your opinions on what the government should do to try to eradicate the underground economy, which affects all of you greatly.

I have more questions after that.

● (1720)

The Chair: Mr. Whyte.

Mr. Garth Whyte: Thanks for bringing this up again, because I edited myself too short.

I support developmental uses. I have worked with the Canadian Labour Force Development Board, with the people across the table, on targeted measurement training, especially for structural unemployment. Our members strongly support that. I do not support using EI to pay for four months' training so that they can return to work, and I'll tell you why. Be very careful before you recommend something like this.

We have a case where, for example, Air Canada could get a training tax credit. They're downsizing and going into bankruptcy. Meanwhile, Bearskin Airlines is expanding and they don't get a training tax credit. It's a mug's game, and it's used often by larger firms. They put people on unemployment, they bring them back, unemployment, and now that happens all over.

I agree with you, of course, that it should be targeted training in the EI, but I do not support that type of program. I really don't. That doesn't mean it's not important and that we have to look at strategies, but I'm worried.

I'll bring up one more. I'll talk about parental leave. As a father of three children, I understand the importance of parental leave. We were concerned that they introduced parental leave. It was done in terms of a big business, a big union organization, big government. They didn't think about what would happen to a five-person firm—and I have a couple of examples. One lost four employees in the same year. He brought in four employees and trained them. Of the other four, two came back—and they don't have to tell them until a month before if they do that. Two left and he was stuck again. He was retraining and retraining all the time.

With what they did, they did not think in terms of a smaller workplace. You can have a policy that sounds great for General Motors, but it may blindside a twenty-person operation. Go to your community and talk to your Canadian Tire constituent and see what he thinks about that.

The second question was on GST fraud. It is a big irritant to our members. I hate to say this, but we sat before a committee similar to this one fifteen years ago. I don't see one person here from when we did make our presentation. We said that if you had too high a rate, you were going to create an underground economy. We have too high a rate.

Many people supported the GST. We said it was a problem. The way to deal with it is pulling people out from underground, not forcing them, because you're going to run into all sorts of problems with “Catch me if you can”. All you're going to do is catch your Canadian Tire friend and not the ones who are underground. That's the real problem, and the trick is to measure it.

Thank you, Mr. Chair.

The Chair: Are there any other comments on Mr. Stoffer's questions? Mr. Myers.

Mr. Jayson Myers: Maybe I'll just comment on what I meant in terms of everybody needing a China policy.

I think the federal government and Canadian businesses need a policy about how we respond to the competition that is coming in from China. What opportunities are there for Canadian technology, in China, to clean up the mess that's there? I can assure you that I don't think there are very many Chinese people who want to live in an environment that's heavily polluted and who want to live in an area where health and safety is at risk. I think there are tremendous business opportunities that present themselves to Canadian companies.

On Ireland, yes, there are a lot of things we can use from Ireland, but Ireland is nowhere near the threat to the economy or the business opportunity that China is right now. So I do think we need a China strategy.

Over the next ten years in Canadian industry, there's going to be more restructuring and change than we've seen since the free trade agreement. It's going to be a tremendous transformation, and we had better be able to respond to the training requirements of people who lose their jobs, because there are going to be a lot of those people right across the country. Whatever mechanism we have, we had better have something in place and start thinking about this now, about whatever the appropriate mechanism is. We want to make sure there is adequate support for people to find new jobs and to be retrained.

Whether it's the use of public funds for training programs, whether it's the use of the R and D tax credit, or whether it's taking a look at EI or GST fraud, my recommendation to the committee is that if you're looking at smart regulations, take an issue like that and then apply the principles of the smart regulation report to that. There is a lot that can be done simply by picking the right instruments and making sure the procedure that works well is in place.

● (1725)

The Chair: Do you have any comments, Mr. Yussuff?

Mr. Hassan Yussuff: They're very brief. I don't think we need to solve this problem, because on some areas we'll continue to disagree.

There's a reality to the skills training problem and skill shortages that we have in the country, but everybody acknowledges that they exist. Of course, the devil is in the details. How do you solve the problem, and who actually pays for it? We recognize and have promoted that the EI fund should only be used for two things. One is to look after workers when they find themselves in the unemployment line, and the second is to help them get skills and re-skilling so that they can get back to work. I think that's the reality or challenge.

With all due respect, despite the fund having an enormous amount of surplus, it hasn't been used for the right purpose, nor is it used for the purpose for which it was intended. I think enough can be said about that.

There has been a lot of debate, and this is where, to a general degree, Parliament hasn't really dealt with what's really going on in the underlying economy in our country. It's growing exponentially for everything that we know, if we really want to do a measurement. The fact is that nobody has come up with a solution to how we're going to fix it. A lot of people think it's better to be in the underground economy than it is to be in the above-ground economy, and there are all kinds of reasons for why that is. I don't think it all has to do with regulation and what have you. The fact is that it is growing.

I think we need to come up with a strategy to give people reasons why they want to be in the formal economy, where they actually have something at stake and they benefit from the formal economy. We need to have a really serious discussion, because you've been avoiding it for quite a long time.

I would agree with Jayson. Very briefly, the fact of the matter is that if you look at the trade surplus between Canada and China, it's increasing every year. It will continue to increase, and I don't think we have come up with any solutions on how we're going to deal with this reality.

The fact of the matter is that we're not competing on the same level in every area you want to measure, and I think it is something we have to start debating. I'm not simply saying to shut the door to China. We have to be honest and recognize that it's going to be a growing economy and be quite dynamic. But I think we also have to say, excuse me, if you're going to compete on the same level as us by creating havoc in your economy, well, sorry, you're going to have to do it with the same degree of rules that we apply and that you will apply equally.

The Prime Minister is going there, and I hope he will take some time to raise some of these serious issues with whoever he takes with him, because it's a serious challenge we're going to face. And we're not the only ones facing this challenge, by the way.

The Chair: Very briefly, Peter, do you have a last comment?

Mr. Peter Stoffer: When Mr. Manley was running for the leadership of the Liberal Party, he indicated that if our dollar was a lot stronger and a lot higher than it was at the time—that was the time of 65¢—a lot of our businesses couldn't compete globally. I'd like your response to that. What do you see as a comfortable level for our dollar?

The Chair: Thank you.

Mr. Jackson, really briefly, in just a few seconds. It's a short question, so a short answer is needed.

Mr. Andrew Jackson: I refer you very briefly to an excellent report that was put out yesterday by CAW economist Jim Stanford. We'd be in full agreement with it. If the dollar stays anywhere near where it is now, we're probably looking at job losses proportionate to the same scale we went through from 1989 to 1991, which is a lot.

● (1730)

The Chair: Thank you.

Mr. Myers.

Mr. Jayson Myers: For manufacturing, as the dollar moved up from 61¢ to 78¢, companies were losing profit. When the dollar moved over 80¢ on average, it cut into cost competitiveness, and it's now affecting investment. With our dollar at 85¢ U.S., I agree with Jim Stanford's report. There are going to be major closures and major unemployment lines.

The Chair: Thank you.

Mr. Whyte, briefly.

Mr. Garth Whyte: And now for something completely different.

As I pointed out on graph 8, it depends on where you are. I was just in Alberta, and they're pretty happy at $55 a barrel. Things aren't going too badly.

It's really a question of how quickly the dollar goes up and the degree to which it's going up. We also had the same discussion with Minister Manley about our standard of living. With a low dollar, our standard of living is not the same. But now it's up there. So you get people who have two points of view here—the dollar is too low, the dollar is too high. It's the degree, I think, that really hurts us.

The Chair: Thank you, Mr. Whyte.

I'm going to the second round, and I'll be a little tighter with the time.

Michael, then Alan, then Paul.

Mr. Michael Chong (Wellington—Halton Hills, CPC): Thank you very much, Mr. Chair.

To segue off that question about the dollar, this government and most western governments don't have a dollar-oriented monetary policy; they're focused on inflation. I think the question's a little irrelevant to ask what level the dollar should be at when we're in this kind of global effects environment.

One of the things that has been brought up is the fact that as the dollar rises and falls—but particularly as it rises—Canadian firms need to be more productive to make their goods competitive to sell in jurisdictions where the dollar is cheaper. My question is, for businesses that operate in Canada, how do we increase their own investment into their own businesses?

One of the things I hear consistently is reform of the capital cost allowance structure. I know that, Jayson, you mentioned one class in particular. I was wondering if you and others could elaborate on what particular classes in the CCA are problematic, and talk a little bit about whether or not these particular classes need to be accelerated or decelerated in terms of the depreciation schedule. That's my first question.

Mr. Jayson Myers: First of all, on the dollar, I agree. There's very little the Bank of Canada can do. It shouldn't be trying to run a dollar policy. The dollar is going up because the U.S. dollar is falling. It's going to create problems for us, but it's creating problems for Europeans and everybody else.

The only way to offset that, and the only way Canadian companies can continue in business and can continue to employ, is through productivity improvement, through investment in greater high technology and higher value added. When we talk about productivity improvement, we should be talking about productivity improvement in terms of doing a lot more with more. This isn't doing more with less. If it's doing more with less, we're shedding jobs and everybody pays. The key here is how you go up the value chain, provide better service, and get off the commodity cycle. That's what it should be all about.

If you were looking at investment in new technology, that's a part of it, because the other part is around the management of companies and the management of that technology. But clearly we need the provision of some incentive that could offset the tax disadvantage that we have in terms of effective rates. A part of it is speeding up the replacement of existing technology, and that's where the accelerated depreciation comes in. The theory of finance is that we should be looking at making sure the depreciation rates reflect the economic life of these assets, but the economic life of the asset is a function of the depreciation rate itself. When we're looking at major competitors like the United States that offer a two-and-a-half-year rate of write-off, we don't come close to matching that, and it's a major disadvantage for manufacturers in this country.

● (1735)

Mr. Michael Chong: What particular class are you talking about?

Mr. Jayson Myers: I think the class of manufacturing and processing equipment is particularly important. That's the class that covers most of the technology. The information technology class was covered in the last budget. I think it's extremely important to look at. IT is one thing, but that's just the arteries that connect the processing and production technologies. That's the technology class that we have to look at.

Mr. Michael Chong: Has your organization costed out what impact this would have on tax revenues, or is it something you think we should do?

Mr. Jayson Myers: In the long term, it shouldn't have any impact at all, because it's simply defraying the cost.

Mr. Michael Chong: What about the immediate term?

Mr. Jayson Myers: We have, and it would be in the area of probably $2 billion in the short term. There is a short-term cost to this, but if we're looking at tax measures as an investment in economic growth, then I think we have to look at them in those terms and not necessarily in terms of revenue neutrality across the system.

Mr. Michael Chong: Are there any other classes, or is that just the one?

Mr. Jayson Myers: That would be the priority for us.

Mr. Michael Chong: I have another quick question. My other question has to do with—

The Chair: Did you want to add something on this?

Mr. André Piché: If I may, could I jump in on this?

The Chair: Briefly.

Mr. André Piché: We do have some members of ours who are printers. You would think printers nowadays are still using the old presses, but they have very sophisticated equipment and they do have problems with the CCA rates. They compete against American firms that get business in Canada. One thing the U.S. administration has passed is a rule that allows businesses to expense the first $75,000 in annual business capital costs. This was passed in 2003, and now it has been extended until 2007, so our small business owners in Canada in a sense are not on a level playing field in that area. Printing is just one example of that particular case.

The Chair: Briefly, Michael.

Mr. Michael Chong: My other question is completely unrelated. It has to do with the fees the government collects. I think someone mentioned $4 billion in annual fees. Could you maybe tell this committee how much they have accelerated over the last number of years or in the last decade? Where were they a decade ago? Where are they today? Where are the bulk of these fees being collected? What departments?

Mr. Garth Whyte: We have a report that we could give you. As a committee, we did a report, and the $100-million question is to show me a list of all the fees. One of the things we wanted was to have the fees listed every year so that you could have this type of discussion. I guess about half are personal fees. About $1.5 billion are personal fees, and about $2.5 billion—I don't know, I'm trying to remember—are business fees on a bunch of areas like veterinarian. There's a ton of fees in the agrifood and agribusiness area and in pharmaceuticals. There are a bunch of things. On the public side, you know about the airport fees and the passport fees. Who's watching the shop? Who's governing the policy?

Really, it would be a real disservice if this committee did not start the process going for someone and make sure that this bill is implemented.

Mr. Andy Savoy: Could we get that report?

The Chair: Is it in both languages? Yes? Okay.

Thank you, Michael.

Alan, and then Paul.

Mr. Alan Tonks: Thank you, Mr. Chairman.

Thank you very much to the deputants. This has been very informative, Mr. Chairman. All of those depositions, along with this material, are very important.

There have been a couple of high-profile capital movements, one from Russia with the proposed purchase of Stelco, the other from China with respect to the purchase of Noranda. Does that give you any concerns with respect to capital accumulation, the movement of capital, investment? If we were to construct a capital balance sheet, would it be true that there's domestic capital leakage? Is that of any concern? If there is a concern, are there any ways by which we could start to reverse that and have a more favourable balance sheet that would start to stimulate the kinds of multipliers that come from investment?

That's just a general macro-economic question, but I think capital infusion is so important that we have to have an understanding of what's happening to capital in our country.

● (1740)

The Chair: Mr. Myers.

Mr. Jayson Myers: For at least the last five years, Canada has been running a deficit in its capital account in foreign direct investment. That means Canadian companies are investing more outside the country than is being invested into the country. In fact, our record in foreign investment is pretty dismal. In 1980, Canada attracted 25% of all foreign direct investment into North America, and that has fallen to less than 8% as of last year.

This is a major issue, and it's an issue that comes down to how attractive Canada is as a location to do business and what sort of business is being done here. When we're looking at potential takeover of Stelco or Noranda by either a Russian entity or the Chinese government, it would provide an infusion of capital into those companies. If that's a better way to use that capital and a better way to reorganize those companies, then I think there's an argument in favour of it. However, I'd also say that it's extremely important that we take a look at the competition implications of those investments.

One of my concerns is that the Competition Bureau in Canada is not necessarily looking at those issues. In the case of both companies, I think it's extremely important to make sure that, for instance, the companies continue to operate on market principles and not on the basis of excess production that would drive down prices and be of benefit for some other supply management reason. I think that's a major concern.

The Chair: Mr. Jackson.

Mr. Andrew Jackson: I agree with most of what Jayson said. Actually, the numbers have been really quite stunning over the past few years in terms of the outflow of Canadian investment and how large it has been relative to inward foreign investment into Canada. When you look at the numbers, the thing I always find very interesting is that most of that Canadian investment abroad is actually going outside of North America. There's actually quite a bit of Canadian investment going into China and developing Asian countries.

Last time I looked at the research—and this tends to be forgotten—the employment impact of Canadian foreign direct investment outside Canada is less than the employment impact of foreign direct investment in Canada. That's not to say all foreign direct investment is a bad thing, but we're losing out as an economy because of that big outflow.

With respect to the Noranda situation, one thing the unions in that sector have been talking about is really looking at a foreign investment review process. It may not be such a bad thing for the Chinese to take over some of these companies, provided that we negotiate some terms and conditions as a part of the takeover, if there are possibilities of adding to the value-added basis of what's done in Sudbury as a result of that takeover, and so on.

I think what the Chinese are primarily interested in is not so much locking in a supply of resources as a kind of hedge.... If resources are going to go up, hurting their economy, then I think they're thinking they might as well own some resource companies and get some benefit on the other side. If they want that and we can negotiate some terms and conditions with them around securing jobs, creating better jobs, we should be thinking....

But what goes on in foreign investment review is a very secretive process. Nobody knows what goes on when the applications go in. We just know they all get stamped “yes” in the end.

The Chair: Thank you, Mr. Jackson.

We're going to give Mr. Piché a chance, and then go to Mr. Crête for the final question.

Mr. André Piché: I guess the reality today is that capital flows very freely, either in or out. I agree with Jayson's reply. A lot of it has to do with the idea that if we create an attractive climate in Canada for foreign investment, it will come. We have a great advantage in Canada when you look at our position within North America. Essentially, we don't want to go back to the days of FIRA, when the federal government essentially had a policy that ultimately was very detrimental to Canada because we wanted to pick losers and winners and we took too much of an active part in dealing with this issue of foreign investment.

● (1745)

The Chair: Thank you, Mr. Piché.

Are there any final thoughts?

Mr. Jayson Myers: I'll just make a very quick comment—

The Chair: Very quickly.

Mr. Jayson Myers: —and that is that the outflow of investment from Canada is a good indication that Canadian businesses are expanding in other markets. They have to invest outside of Canada to establish in Asia or China or Europe, because it's so difficult to trade into these areas without some presence in those markets. So outward flow is not necessarily a bad thing.

The Chair: You would have to know what the dividends back from the outward investment are in terms of earnings to balance that off.

Mr. Alan Tonks: Thank you.

The Chair: Thank you, Alan.

Paul, please.

[*Translation*]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): I shall make a brief comment that will be followed with two questions. I have been a member of Parliament for the last eleven years and I have never seen the manufacturing industry as nervous as it is now. Manufacturers were used to the rules of the game established within NAFTA. They are not playing in the same arena anymore. Within one year, they have got to compete with the world. Since the entrance of China in the WTO, for instance, everything is changing. And even if the economy is healthy, they are very nervous.

If you had to choose the best way to spend the $10 billion surplus that Canada had last year or will have this year—let us say $10 billion because it is easier to calculate—taking into account Canada's industrial strategy, would you choose to use the whole amount to pay back the debt? Do you think it would be wiser to use half of it, for instance, for different things? How would you use the surplus? This is purely theoretical, but tell us, roughly, what your industrial choices would be.

Mr. André Piché: We have asked our members how they would use each surplus dollar. These are preliminary results and we will get final results soon, but they won't change much. On each dollar, they would spend 48¢ to pay back the debt, 34¢ to reduce taxes and 18¢ to increase spending. Extra expenditures would go primarily towards education, infrastructure and health. Those are the basic responsibilities of the government.

Mr. Paul Crête: Thank you.

[*English*]

Mr. Jayson Myers: I would say that, number one, we need a better process for trying to forecast what the surplus will be. I think it's fair to have the contingency fund go to debt repayment. I think that's an important part. We should continue to pay down the debt. But I think part of that, too, should be invested in providing for a better tax structure for investment for business growth.

The Chair: Mr. Yussuff.

Mr. Hassan Yussuff: If you grow the economy, the reality is that the debt will go down anyway, because you're creating jobs and people will be paying taxes.

Our priorities would be education, child care, and infrastructure programs. These are necessary things. If we're really, truly going to have a dynamic economy, we have to start investing in the things that really matter, that are going to help the economy survive. To a large extent, I think we have said, in concert around this table, that these are areas in which we face challenges.

I would agree with Jayson. I think there already is a better mechanism of predicting the surplus. The government has just not been prepared to live with it to date. It's always underestimating it, and then we find ourselves with this challenge.

I think there's a real deficit in our country, and with the kind of money we have, I think this is the opportunity to do some of the things that really need attention.

The Chair: Paul, take us to the finish line.

[*Translation*]

Mr. Paul Crête: I come back to my first comment. Do you think that my assessment of manufacturers' nervousness is appropriate? If yes, is that nervousness justified?

Mr. Whyte said earlier that it depends where you live in Canada. It might be true. I would like to know if you believe that this nervousness is justified.

● (1750)

[*English*]

Mr. Garth Whyte: Earlier, I talked about two economies: the stock market economy, and the non-stock-market economy that represents independent business. When we ask them—and we break it out by sector in the handout—six sectors are optimistic and four sectors are nervous. Actually, among our members, the manufacturing sector is still pretty bullish, and wholesale is. Construction is down a little bit. Agriculture is the one that has been in a slump for two years, and we know why. Business services are good and finance is doing well, as is hospitality. Real estate is coming down.

By province, it's quite interesting. The most optimistic—and it has come down slightly—has been B.C., although maybe it's a question that they've been down so long that everything looks up, I don't know. But it's also the Olympics. Alberta, of course. Right beside Alberta is Quebec among our members, and Ontario. Manitoba has gone down and is flat, and Saskatchewan has been in a low link to agriculture. Likewise, the Atlantic provinces have been slumping steadily.

We'll find out next week. We want to see how much further it goes when we come out with our barometer. At least from our sector, though, that's what they're telling us about their business.

The Chair: Mr. Myers, then Mr. Yussuff.

Mr. Jayson Myers: The manufacturers probably aren't as nervous about their business as I am about getting the plane out of here at seven o'clock, so I have to make this short.

The Chair: Please feel free to excuse yourself anytime. We're almost done anyway.

Mr. Jayson Myers: I think there are two issues. There's the short-term issue about cashflow and profit. What's happened with the dollar at 85¢ is that it has shifted the bottom line for many companies from a profit to a loss, and they're going to have to respond to that very quickly. It's going to be very difficult. In the short term, companies are extremely nervous about that, because it comes at the end of four years of adjustment and there isn't very much to cut right now. On the outlook for production, this has been a surprisingly good year. The outlook doesn't look as strong for the U.S., so there is certainly nervousness about that.

The real issue is what we are facing over the next five to ten years, particularly with the challenges of China, India, Brazil, and Mexico, with all the issues around the demographics and skills and with the issues around productivity. Even if companies are able to make the productivity improvements to respond to the dollar, the issue then is where you invest that money in order to grow. On that side of things, right across manufacturing, it has to be a very different type of doing business. It's that uncertainty right now that is creating nervousness. At the same time, all of these challenges mean there are all sorts of opportunities for business as well.

We were nervous before the free trade agreement. If you had listened to the economists, manufacturing would be out of business. But they really went into the strongest growth they've ever experienced over a period of ten years after that. Companies can be optimistic, but it may be in the nature of manufacturers to be particularly nervous. It's not going to be an easy transition.

The Chair: Mr. Yussuff.

Mr. Hassan Yussuff: Just very quickly, I think I'll just use this as a comment to highlight something. As you look down the road, in the next ten to fifteen years, it's going to be an enormous challenge for our manufacturing base in this country. We're already seeing that to a large extent, and I think this is an opportunity for the government to recognize that it has an important role to play.

We're not simply innocent bystanders in what's happening in the overall economy. Obviously, for many of the countries that are competing, their governments are directly involved in fostering policies that are going to promote and reinvest and grow the manufacturing the sector. We know from our own statistics that this is a highly paid sector in our economy. It pays very good wages to a large extent and employs a significant amount of people. In addition to that, if you look at our export side, autos are still the number one export of our country, and then you get down to where it's energy, oil, and gas.

If we want to maintain this competitive advantage, simply doing nothing is not the solution. We have to really figure out our long-term objective. How do we want to maintain and foster a climate of investment while at the same time ensuring that we have the skilled workforce? Of course, we need reinvestment so that we can actually develop the necessary policy tools that can make this happen.

The one thing we do have that we're going to face, increasingly like the Europeans and other countries, is an aging workforce. We're getting old pretty quickly, and that's going to be a fundamental challenge for our economy as we move forward. For us, what does that tell us about how we move? The skill sets and needs of our country are going to increase, and we don't seem to have a strategy for how we'll respond.

I can't say this committee's work at this particular time, it could be argued, should have been the same as at other times, but it's extremely important for you guys to figure out how you can stimulate a broader debate in this country about what is missing. I think there's an opportunity here. There are some common voices speaking around this table about the need for us to have some good policy tools that will move us forward, and I hope your report and work will continue.

Hopefully, you'll also invite others to come and present before the committee. I think a number of others haven't had that opportunity yet, and they'd love to engage you in a debate similar to the one we are having here today.

● (1755)

The Chair: I'm going to thank our witnesses again for their indulgence on the late start and the late finish. You've been most helpful.

I commend members for their excellent questions and our witnesses for their excellent answers. Thank you.

With that, we're adjourned.

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