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Mr. Rob Merrifield

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● (1530)

[*English*]

The Chair (Mr. Rob Merrifield (Yellowhead, CPC)): I call the meeting to order.

This is our second meeting on the rapid rise of the Canadian dollar and its impact on Canada.

We'd like to welcome the witnesses to this committee. We have two sessions. We are a little bit limited in time because of the bells and votes this afternoon, so we'll try to accelerate the proceedings as fast as we possibly can.

We have with us the C.D. Howe Institute, the Canadian Centre for Policy Alternatives, the Centre for Spatial Economics, Centrale des syndicats démocratiques, and Confédération des syndicats nationaux.

We want to thank you for coming. We will yield you the floor at appropriate times and introduce you by name.

We'll start with Finn Poschmann. The floor is yours. You have five minutes.

Thank you.

[*Translation*]

Mr. Finn Poschmann (Director of Research, C.D. Howe Institute): Good afternoon Mr. Chairman and members of the committee.

[*English*]

It's terrific to be here with a new Parliament. Thank you very much for having me.

[*Translation*]

I will be addressing you in English,

[*English*]

going forward.

So on the loonie, the loonie has been flying high, stalling and falling, and flying high again, and Canadians have been asking non-stop, and are asking me non-stop, what is steering its flight, whether it's a problem, and if it is, what to do about it.

These are huge issues, and pointed ones for manufacturers and others who sell into the world markets and bear costs that are priced in local dollars but whose purchasing has not actually increased at home. This is the classic price-cost squeeze for exporters, one that gets all the tighter as hedges run their course and contracts come due for negotiation.

So what's driving the loonie? The first answer, of course, is the U. S. dollar, which peaked in trade-rated terms—that's from the U.S. perspective—in 2002. I put a figure in front of you, and I believe it's been distributed; thank you very much to staff. Spring 2002 is the peak of the purchasing power of the U.S. dollar in terms of world goods. Since then the U.S. dollar has edged steadily downwards through October 2007, losing roughly one-sixth of its purchasing power in world markets.

This was predicted by many folks, and those predictions were made clearly correct when savers and investors more recently cooled their desire to hold U.S.-dollar-denominated securities. It had been their previous willingness to hold U.S.-dollar-denominated securities that held up the greenback in the face of remarkable stress on the U. S. economy. Consider, if you will, that for calendar year 2007, the U. S. merchandise and trade deficit will come in at nearly $800 billion. So the necessary balance of payments implication is that savers in the rest of the world need to send in about $2 billion a day in capital flows to the U.S. market in the form of portfolio stock and bond purchases or direct investment. As a matter of balance of payments arithmetic, those flows must balance, and in a floating exchange rate environment the currency will adjust until it does. So the first part of the story, of course, is a U.S. dollar story.

It's no surprise that Canada's tight trade alignment with the U.S. should expose our producers to U.S. currency risk. What is new is the pressure on Canada and the world demand for commodities, energy in particular. I have a figure that shows what's happening in energy markets and in commodities excluding energy, and you will see a tremendous recent run-up in energy as distinct from other commodities. My institute's policy analyst, Robin Banerjee, estimated what we fondly call the Bank of Canada equation, which shows that we are indisputably in possession of a petro loonie. This means that after accounting for the interest rate differential between Canada and the U.S. and the price of other commodities, changes in the world price of energy explain most of the price path of the loonie.

So energy prices and investor doubts about the outlook for the U. S. economy explain much of the positive stress on the loonie. There is more, of course. Investors in the U.S. who are doubtful about the U.S. dollar outlook might choose to bet on the oil price as a hedge, right? They're going to buy oil futures. That would exacerbate the upward pressure on the oil price, and on Canada's currency in particular.

How big a problem is all this for the Canadian economy? Clearly, for many Canadians this is a good news story, if not for businesses selling into the U.S. market. There are bright spots, and this goes beyond observing a trade that's been growing well in other markets. StatsCan figures from a couple of weeks back show that Canada's trade with economies other than the U.S. has been growing quite sharply. So not everything is bleak. Of course, we are hugely dependent on the U.S. for our trade market, so that still is, as I say, a huge issue.

The other bright spot I mentioned is that the price of oil is a good hedge on the U.S. dollar. This helps Canadian manufacturers for whom energy is an important input. The rising loonie helps reduce or helps stop energy costs from rising as much as they might have been for Canadian producers. Otherwise, life would be a little more difficult than it is now.

The other point is that the same strong purchasing power abroad makes capital equipment more affordable than otherwise, and this puts in place the conditions for investment in plants and resources that will make our labour force more productive, underpinning future job and wage growth in a non-inflationary environment.

That brings me to my last point—what to do about the dollar. The government and the Bank of Canada's agreement on the inflation targeting framework is an extraordinarily valuable thing. Clarity of purpose helped keep financial markets stable, if not predictable, when the loonie hovered around the 60¢ mark, and so too will it help clarify thinking as we adjust to near parity. We have an extraordinarily resilient export sector, which, while under pressure in many markets, also possesses the skills and tools to respond smartly to that pressure. I have no doubt that they will and that we will succeed in doing so.

● (1535)

The Chair: Thank you very much. We appreciate that.

We'll now move on to Mario Seccareccia.

Prof. Mario Seccareccia (Full Professor, Department of Economics, University of Ottawa, Canadian Centre for Policy Alternatives): Thank you.

I'm very happy to be able to actually speak on my behalf. I was invited by the Canadian Centre for Policy Alternatives, which found that I had done some work in the area. Although not directly connected to the issue of what's happening to the manufacturing sector, I did do some work with a colleague from the American University in Washington on the issue of monetary integration. In that context I would like to be able to say a couple of things with regard to what's happening right now.

One is that clearly there are some underlying factors that are pushing up the Canadian dollar—some have been highlighted by my colleague here—and needless to say, one of the important ones is oil prices.

On the other hand, you see a lot of volatility. The Bank of Canada has been following more or less a kind of pure float, if you wish to call it that. In fact it has not intervened in the foreign exchange markets for the last 10 years approximately. Perhaps that's for good reasons, but I think here's a situation where maybe we should be concerned about it.

As I said, the underlying factors are oil prices, but I think one should be concerned about the speculative elements as well. I'm one who actually supports the idea of a floating rate. I'm not pushing for fixed, or pegged, or further integration, in any sense of the word. I do think there is some concern right now with the volatility. It does impact on decisions, and it impacts on the bottom line for a number of Canadian firms.

In terms of how to address a problem that is of most concern to the manufacturing sector of central Canada, I have some data. At its peak in 2000, we had manufacturing as a share of total employment at around 15.5%; it is down to about 12% right now. It has been going down in a fairly substantive amount over a fairly short period. One should be concerned about what the economists have traditionally referred to as a kind of Dutch disease that is afflicting our industry.

If indeed this sort of Dutch disease is impacting quite negatively on much of our manufacturing sector, which I believe it is, there are certain things that ought to be done. I would like to propose that we have a three-pronged approach on this.

One is that monetary policy is essential here. By that I mean that interest rate policy should be addressed. A lot of people, especially from the manufacturing community, have been yelling and screaming about that. I think it's certainly of concern, especially in light of what I'm going to tell you right now.

If you look at certain indicators, for example, the overnight rate in Canada, which is pretty much under the control of the central bank, when you adjust for inflation, in 2006 the CPI had reached a bottom. It was pretty much like that until about the summer of December 2007, with a gap vis-à-vis the U.S., which is the federal funds rate adjusted for inflation, of about 50 basis points, so 0.5%.

It stayed like that for a while, but since the summer it has shot up, and in the opposite direction. Now we're above the U.S. rate in the order of about 87 basis points. Surely there's some room to manoeuvre here, especially if you look at the inflation rates in the two countries. In the U.S. it's about 3.5% a year CPI. The Canadian rate was about 2.4% in October, for instance, and if you look at the core inflation rate, it's about 1.8%. So surely there's room to manoeuvre.

I would think that something ought to be done. We can certainly bring it down, if anything, within the range of the gap, which is close to 1%. That's something I would certainly ask that we tackle in some way.

● (1540)

In addition to the interest rate policy, the other concern is that we should intervene in the foreign exchange markets. As I said earlier, since 1998 the central bank has not intervened at all. In this case, I think there should be some concern about it and that the bank at least mitigate the fluctuations. We have no control over the international market for oil, and so on, but surely we should do something to mitigate the impact of the dollar's fluctuations on Canadians, and especially in this case when a lot of it is driven by speculation.

The third thing, I think, is on the fiscal side, and that's the last thing I would like to mention here. On the fiscal side, I think we should do something not only in terms of addressing it with a Keynesian-type policy of trying to increase, let's say, domestic demand when our exports are slowing down, but also, at the same time, in terms of the problems with our equalization formula. If you look at what has been happening and the way it's been debated over the last while, we have essentially been arguing that we should exclude oil revenues from that formula—as Newfoundland and Saskatchewan have been arguing in going to court. Now it seems to me that some principle of compensation should be applied if we look at this situation in the context of where oil revenues are rising, that is, in Alberta, where oil prices are shooting up and causing a paralysis of manufacturing in central Canada. That's the point I would like to make.

● (1545)

The Chair: Thank you very much.

Now we'll move on. We have Robert Fairholm, director of economic forecasting services at the Centre for Spatial Economics.

The floor is yours for five minutes, please.

Mr. Robert Fairholm (Director , Economic Forescasting Services, Centre for Spatial Economics): In terms of the Canadian dollar and its impact on the Canadian economy, it's important to keep the rise in context. As has been mentioned, commodity prices have been going up and the U.S. dollar has been going down, both of which have forced the Canadian dollar up.

There is reason to believe that the context today is worse for the Canadian economy than it was the last time we had a rapid rise in the Canadian dollar. In part that's because with the rise in commodity prices from an already high level, you have overheated economies in the resource-based sectors of the country, so it's less likely that further growth will come from that. Also, as the Canadian dollar goes higher, the pressure on the manufacturing base will intensify.

While the U.S. dollar has gone down, it has not gone down equally for all currencies. The Canadian dollar is one of those that has risen the most against the U.S. dollar, therefore our relative competitiveness in other markets has deteriorated versus third countries such as Japan. Therefore there is likely to be more of an impact on Canadian exports during this cycle than the last time.

The U.S. economy is also far weaker during this cycle than it was back in 2002-04, when the Canadian dollar ramped up quite considerably. It's well known that the U.S. economy is experiencing a number of problems this time. Last time it was quite robust, and the growth of the U.S. economy sucked in a lot of imports from Canada and helped to offset the negative impact upon Canadian exporters from the rise in the Canadian dollar.

This time we don't have that. We already have an overheated economy in Alberta and in the resource-based sectors of a number of provinces. So you have less of an offset this time than during the previous period.

There is some positive news in terms of some of the changes that have occurred recently. Certainly the mini budget that came out recently will provide some fiscal stimulus, although it will not be sufficient to offset the negative impact from the rise in the Canadian dollar, even after you factor in the rise in the price of oil as well.

One big negative is the volatility of the Canadian dollar. If you're a business person, you have no clue how to factor in exchange rates and resource prices, because they're fluctuating wildly. Volatility has a negative impact upon business investment, and some economic research has illustrated that. Therefore, Canadian companies have this extra pressure on them caused by uncertainty due to the volatility.

There are several key factors that will influence how large an economic impact the rise in the Canadian dollar will have upon the economy. One is monetary policy. If there's no accommodation, you have a larger negative economic hit. If the Bank of Canada eases interest rates, obviously that will have an offsetting influence by stimulating the domestic economy as net exports contract.

The other key thing is the flexibility of the wage-price system. The more inflexible the wage-price system is, the larger the shock and the longer it will take to work its way through the economy.

One policy response is some help for businesses to invest. Certainly the cut in corporate income tax rates is one benefit, although that tax cut is more tail-end-loaded, with most of the fiscal stimulus and tax cuts occurring later on.

One can argue for an investment tax credit or an extension of the CCA holiday to help businesses invest and take advantage of the high value of the Canadian dollar in terms of capital imports.

● (1550)

You should also consider policies that will improve the flexibility of the economy. It's unlikely that they will have a major impact during this cycle, but with the unemployment rate at a 33-year low, certainly anything to lower the full unemployment rate, or NARU, will help today and down the road.

So improving the flexibility of the wage-price system will be helpful. One can do that through geographic mobility—encouraging people to shift from one area to another where the jobs are—as well as inter-occupational mobility. In some surveys we've done, a certain degree of reluctance was illustrated by employers to double-transition between industries and occupations. Given the current pressures on the labour supply, anything that will help companies recognize the qualifications and skills that people have and make those sorts of transitions will be helpful.

In Australia and New Zealand, for example, they have a much more well-developed system of recognizing current competencies and prior learning. Moves toward that type of approach, as well as foreign credential recognition, would be helpful for the Canadian economy in the short, medium, and long terms.

Thank you.

The Chair: Thank you very much.

I'd appreciate it if we could keep it to five minutes. Our time is very tight in this segment. Hopefully we'll get to flesh out some of your ideas in the question and answer period.

Now we have Claude Faucher from Centrale des syndicats démocratiques.

The floor is yours for five minutes, please.

[*Translation*]

Mr. Claude Faucher (Vice-President, Centrale des syndicats démocratiques): Thank you for allowing the Centrale des syndicats démocratiques to express its views on the impact that the value of the Canadian dollar is having on the economy, especially in the manufacturing sector in Quebec.

The rise in the dollar since 2002, and in particular its meteoric rise in recent months, has had major consequences on the manufacturing industry in Quebec. More than 120,000 jobs have been lost since 2002. Within the last year alone, more than 36,000 jobs have been lost. We believe that this is due in part to factors other than the rise in the dollar, but that to a large extent these losses can be attributed to the rise in the dollar.

Generally speaking, jobs in the manufacturing sector, at least the ones we know about in Quebec, have been stable, relatively well paying and motivating for people performing them. We have heard that the economy is doing well in macroeconomic terms, that unemployment is low, as is inflation. In short, against this backdrop, we are led to believe that people who lose their jobs in manufacturing could find an equivalent job tomorrow morning.

That is a standard bureaucratic answer, as far as we are concerned. It can perhaps be defended at the macroeconomic level, but it is a completely different story for the men and women affected by this situation. Just look at forestry, textiles and apparel industries. In cities dominated by a single industry like Montmagny or other municipalities in Quebec, when the company closes its doors, people no longer have resources. We are talking about people who have worked for 30 or 35 years for the same employer and for whom, in many cases, it was their first job when they left school. These are people who have devoted their entire lives to the company by working and earning a living in a dignified way, paying their taxes, and who, despite their good will, are left in the lurch overnight.

It is not true to say that these people will be in a position to find a job tomorrow morning. As for jobs in the industry, people talk about the services sector. I don't think that working at Wal-Mart is very motivating. Above all, these jobs do not pay well. Most jobs that are created are atypical, part-time, and unstable. They provide neither adequate income nor sufficient security for people whose are more focused on their needs and of ways of meeting the obligations of their daily lives.

We think that the Canadian government and the provinces must accept Quebec's proposal to hold an emergency meeting to discuss the situation and to suggest a number of initiatives, such as developing measures to encourage research and development, promoting the strategic repositioning of companies in promising areas, or helping to encourage companies to accept the notion of participatory management in the workplace, an approach we firmly believe in. A company that wants to relaunch itself successfully or guarantee its future must work with the people who are doing the job. We believe that given the current climate, people have no incentive to adopt this approach.

We believe that potential solutions do exist. Job creation strategies must be developed, but we must also think about the thousands of men and women who have no hope of finding a new job when their employment insurance benefits run out, owing to the gap between the training and experience they have acquired over the years and what is required of them in the workplace of today. Some of them will have to relocate, leave their communities, or simply face the fact that they do not have the knowledge and skills required to hold down the jobs available in their regions.

● (1555)

We believe that the government must move immediately to establish an income benefit program for older workers. Moreover, the Quebec Government has already indicated its willingness to participate in such a program. All that is missing is for Ottawa to come on board. We believe that Ottawa has the means to take action, and that it must do so urgently so that people can live in dignity.

That is the crux of my presentation. The government should also honour the commitment it made to assist traditional industries like manufacturing and forestry.

[*English*]

The Chair: Thank you very much.

We'll now move to Pierre Patry, our last presenter, from the Confédération des syndicats nationaux.

The floor is yours for five minutes, please.

[*Translation*]

Mr. Pierre Patry (Treasurer, Confédération des syndicats nationaux): Thank you very much, Mr. Chairman.

I want to start by pointing out that the Confédération des syndicats nationaux is a union organization representing 300,000 workers, mainly in Quebec, in all industrial sectors, including manufacturing, which is currently hard hit by the rise in the dollar. The CSN represents people in all sectors, be it paper, forestry, metallurgy, agrifood, or tourism.

We want to thank the committee for its invitation, although we only officially received it last Monday. That is not much time to prepare a comprehensive analysis of the situation. Having said that, the CSN does want to provide input to the government on this issue.

As others before me have said, if we take a global look at the macroeconomic situation, judging strictly from the numbers, things are going well. Employment is up and the unemployment rate is relatively low. However, if we take a more in-depth look at the issue by sector, we see, at least in Quebec, that the manufacturing sector has taken quite a hit. Since December 31, 2002, Quebec has lost some 135,000, or 20%, of the jobs in this sector.

Twenty-one thousand jobs have been lost in forestry alone. It's a disaster considering that in Quebec, 100,000 people in 240 towns and cities work in this sector. Often, towns only have one industry.

What's more, Chinese imports to Canada have gone from $12 billion to $32 billion over five years. The trade surplus, which was $7 billion in 2003, has turned into a trade deficit of $15 billion in 2007. In light of these facts, the situation is not at all rosy.

I am going to quickly talk about monetary policy. Our main concern, as was the case for the previous speaker, is employment and the factors that can adversely affect it. In our estimation, it is clear that the Bank of Canada must take action, specifically by lowering interest rates. It is all well and good to fight inflation, but inflation is currently well under control. The inflation rate in Canada is even lower than it is in the United States. But as it happens, maintaining higher interest rates contributes to the rise in the Canadian dollar. That has repercussions on manufacturing, and thousands of people are losing their jobs.

We feel that the government must use its budgetary, fiscal and financial policies to take action at the same time as the Bank of Canada. In this regard, the measures announced in the Conservatives' most recent economic statement are inadequate, in our opinion. Reducing corporate taxes from 22% to 15% over a certain period of time is laudable, but companies that do not make a profit do not pay taxes anyway. Overall, apart from pharmaceutical companies, the manufacturing sector in Quebec is not turning a profit.

Instead, businesses need other kinds of assistance, like investment and employment support measures. We are thinking mainly about loan and loan guarantee programs that could be beneficial for companies. At present, the high dollar may encourage corporate investment if businesses are purchasing their equipment abroad, but there again, they need funds to be able to do that.

We feel that the Government of Canada should support and complement what Quebec is doing, for example. Quebec is providing tax assistance to resource-based regions with a view to helping them promote secondary and tertiary processing, of which there is unfortunately too little in Quebec.

I also want to address the issue of research and development. Statistics in this area show that Canada lags behind the OECD average for comparable member states, while the private sector is also lagging behind in terms of research and development in OECD member states. The federal government should help businesses so that more research and development is done. Existing tax credits that should be refundable is one idea that comes to mind. Even companies that are not turning profits could at least benefit from that. We would also like the government to make more expenditures eligible for tax credits, including costs associated with obtaining a patent as well as human resources training costs. These initiatives would help to increase productivity and help people hold on to their jobs.

As I said earlier, the CSN is primarily concerned with job losses in the manufacturing sector. The forestry industry has been hard hit by job losses. Some 20% of our members working in this industry have lost their jobs. I provided you with some overall numbers a little earlier.

● (1600)

Finally, I would like to briefly address two other issues. Providing transition measures to help people move into other jobs is a good idea, but unfortunately, some people fall through the cracks. We feel that the government must take steps to improve the employment insurance system, namely by increasing benefit levels, improving and facilitating eligibility for employment insurance and extending the benefit period.

Moreover, we feel that specific measures must be adopted as part of an income support program for older workers. ALthough we agree with the most recent programs put in place by the federal government to promote the transition of older individuals to the workplace, many of these workers do not have the training they need to successfully make this transition. Measures are needed to bridge the gap between employment insurance and eventually, pension benefits. I would point out that an initiative on this level would cost the federal government only $75 million per year, whereas it has announced a $10 billion surplus for this year. The federal government has the wherewithal to act on these matters.

[*English*]

The Chair: Thank you very much.

We'll now move on to the questioning part. We'll start with the Liberal Party, with Mr. McCallum. We have six minutes in this round, and I think we can get it done in time.

Go ahead.

[*Translation*]

Hon. John McCallum (Markham—Unionville, Lib.): I want to thank all of the witnesses for coming.

I would like to start by asking everyone the same question.

[*English*]

It's a very simple question. I think it's fair to say that if the currency stays at the current level, the job losses we've seen in industries that are sensitive to exchange rates will get bigger. From an economic point of view, I think it's clear that currency appreciation has a significant effect, but it takes one or two years to be fully played out because of lags of various kinds.

Very quickly to the three economists, beginning with Robert Fairholm, do you agree with that; and do you have any numbers, or approximate numbers, to add to it?

Mr. Robert Fairholm: Yes, I agree with that. It takes a while for the full impact of a rising Canadian dollar to feed through the economy and have its peak impact on output and jobs. We did a study for Industry Canada a few years ago, which presumably you can get access to, that examined the previous rise in the Canadian dollar, looking at increases of 10% to 15% or so, and the peak impact came two or three years after the run-up in the currency.

• (1605)

Hon. John McCallum: So in the present experience, that would mean that the job losses we've seen in the last six months, say, are quite small compared with what we'll see in the next 12 months if the dollar stays where it is.

Mr. Robert Fairholm: Exactly.

Hon. John McCallum: Okay.

Do any of the economists disagree with that?

Prof. Mario Seccareccia: I would argue also that on the price side there are some benefits there, over time.

Hon. John McCallum: I know there are benefits, but it's a narrow —

A voice: The short-term impacts are negative.

Prof. Mario Seccareccia: Sure; absolutely agreed.

[*Translation*]

Hon. John McCallum: That takes me to our two guests representing the unions. Are you also under the impression that the situation will worsen over time if the dollar maintains its current value?

Mr. Pierre Patry: The situation is already disastrous for the entire manufacturing sector, because the dollar has been on the rise for five or six years. Its value has increased some 40% over the American dollar. Many job losses have already occurred in certain sectors.

However, there are some areas that we have yet to touch on. We represent people in the tourism industry. The value of the Canadian dollar has clearly been increasing against the US dollar for a number of years. Now that the Canadian dollar is stronger than the US dollar, we are very worried about the negative impact this may have on this industry a year or two from now. That is why action must be taken right away, namely through monetary policy. We also need to bring in support measures for workers who lose their jobs, through the employment insurance system and income programs for older workers. This is absolutely essential. At the same time, by doing this, we can take advantage of the current situation to encourage investment in businesses, because the dollar will remain high for some time. So then, the government needs a comprehensive short-, medium- and long-term strategy.

Hon. John McCallum: That's good, thank you. I fully agree with you, action must be taken. I was simply trying to establish that the situation will worsen if nothing is done.

[*English*]

I'd like to switch the topic now, to something that I think Mr. Poschmann and I may agree on.

On the question of the current monetary system of inflation targeting versus a fixed exchange rate or a monetary union, I would argue that a peg is not really feasible. It has to be something stronger, like the euro. From time to time, when the dollar is very weak or volatile or high, this call for a monetary union re-emerges in Canada. Just yesterday, a well-respected individual, Roger Martin, started talking along those lines.

To Finn Poschmann, whether for economic reasons, sovereignty reasons, or both, which system do you prefer?

Mr. Finn Poschmann: Clearly, Mr. Chair, I'm going to have to have a talk with Roger.

The floating exchange rate, or inflation targeting, is a monetary order that's been working very well for Canada. The question of a fix immediately prompts you to ask, “At what level?”

This actually would go back to the question you asked before, about if the dollar stays where it is. Well, it's not going to. If you're doing your modelling on what's going to happen to jobs, look, did you want to do that modelling at last week's $1.10, or this week's or yesterday's exchange rate, or at this afternoon's exchange rate, when it's a cent lower?

So we have to be cautious about making a lot of assumptions—

Hon. John McCallum: No, I'm assuming that the dollar stays where it is. That was the premise of the question.

Mr. Finn Poschmann: Of course, if I may, because I didn't have a chance to answer, the one thing you know is that if the U.S. inflation rate is sitting at 3.5 %, and ours is sitting at 2.5%, it's not going to stay where it is. That's not a choice you get to make.

Hon. John McCallum: I think economists often ask, other than the equal rate question, what will happen to jobs with the currency at its current level. It could go up. It could go down.

Mr. Finn Poschmann: That goes back to the point about fixing currency. What fixing a currency does is mask real price changes, real relative price changes. The market price of oil is very high right now compared to the price of cars. You have to make a lot more cars to buy a barrel of oil. That difference, or that ratio, isn't going to change when you fix the currency. The high price of oil is going to draw resources out of the manufacturing sector and draw people and money into the commodity sector.

So you don't know that employment is going to go down.

The Chair: Thank you very much.

We'll now move on to Mr. Crête.

[*Translation*]

Mr. Paul Crête (Montmagny—L'Islet—Kamouraska—Rivière-du-Loup, BQ): Thank you, Mr. Chairman.

I want to thank you all for coming today.

Many people have said that the main problem is the dollar's volatility. My question is for all of you. If you were the Minister of Finance and you had to prepare the next budget, what steps do you think would be the most effective in dealing with the negative impacts of this volatility? I am not saying that there are no positive impacts, but what would you do? What importance would you attach to that in preparing the next budget?

● (1610)

Prof. Mario Seccareccia: May I say something? I would just like to say that I do not think that the Minister of Finance would be authorized to act; that would be the Bank of Canada's role instead. As I said earlier, the current problem is that the Bank is not intervening at all in the exchange market. I think that is a problem in the current context, where we are seeing a great deal of volatility. I sincerely believe that something must be done in this regard, and this is essentially the Governor of the Bank of Canada's role. It is not really up to the Minister of Finance to take direct action, although he could give direction in this regard.

Mr. Paul Crête: If the Bank of Canada continues to act in this fashion, what tools will the Minister of Finance have to deal with the situation?

Perhaps Mr. Patry could reply.

Mr. Pierre Patry: As I said during my presentation, we believe that both parties must act. The Bank of Canada must act, and the government must act in any case. The next budget must contain business assistance measures. What was announced in the Economic Statement, that is, providing tax relief to businesses, is not really a good idea. Instead, our action should focus on encouraging businesses that create jobs. That's why we think there should be assistance policies for businesses, just as there are for research and development.

The last point I wish to make is perhaps not quite as relevant to today's topic, but the provinces must also receive assistance through an increase in federal transfers. Although transfers were increased in recent years, the provinces all agree that they need $1.2 billion in transfers for higher education, whereas only $188 million has been transferred for 2008. Higher education results in people who are better educated and this in turn leads to improved productivity and a more vibrant economy in the short and long term; this is proven fact.

Mr. Paul Crête: The other finance ministers...

Mr. Faucher, what do you think?

Mr. Claude Faucher: I tend to agree. The Minister of Finance is an orchestra conductor who must work in concert with the provinces to develop a support strategy for businesses, a strategy to revive businesses in certain sectors of economic activity and also a strategy to help re-skill workers, when it is possible to do so, or to provide them with financial assistance, when it is not possible to do so.

Mr. Paul Crête: So in your opinion, leaving the market to its own devices is not the answer. You referred to Montmagny, which is in my riding. I am well aware of the changes that have occurred there. New jobs have been created, but many people have been left to fend for themselves. In the long term, this situation becomes very difficult for the regions concerned.

Mr. Claude Faucher: Indeed. For people who have worked all their lives in a textile mill or in a factory that produces kitchen appliances, it is not easy to suddenly envisage going to work in a high technology firm. It is these people, who have neither the means nor the ability to find another job, that we want to help financially.

As for those who are able to find other work, they need assistance programs that will help them make this transition and receive the training they need to work in the new jobs that they find.

Mr. Paul Crête: What about the other finance ministers?

[*English*]

Mr. Finn Poschmann: Rob raised a few points in his discussion about policy measures, so I'll let him go ahead.

Mr. Robert Fairholm: As I mentioned earlier, the negative economic impact is larger when the price and wage system is less flexible. It doesn't matter whether it's an exchange rate shock or some other type of shock, encouraging the flexibility in your wage price system is helpful in mitigating the size of the impact and bringing the economy back to balance more quickly. So measures that help people find jobs, wherever they may be, would be beneficial.

In terms of mobility, if you lose a job in one area and there is a need someplace else, say within your province or within the country, ways to encourage people to overcome non-monetary barriers to shift from one part of the country to another would be helpful to get the jobs to those people.

Also, there are a number of barriers in terms of people switching between different types of occupations that seem to go beyond the usual economic barriers. So methods to recognize qualifications and the types of skills that people bring to the table would help them shift between occupations. There is a reluctance on the part of employers to hire people because they don't think they have the right skill set, even though analysis shows there is a fairly good fit between different occupations. However, employers have this view that the person can't do the job because it's a double transition, often, between the industry they worked in and to a different occupation.

We have some employers throughout the country who need people but who can't find them. Then you have other people who have the skill set who can't find work, so there seems to be a misfunctioning at a micro level within the economy. There are sector councils trying to work toward improving that fit, but still there is a mismatch occurring in the economy at a very micro level.

● (1615)

The Chair: I'm going to have to call it there. The time is over by a little.

I'll move on to Mr. Del Mastro. You have six minutes.

Mr. Dean Del Mastro (Peterborough, CPC): Thank you, Mr. Chair.

Mr. Poschmann, you mentioned in your remarks that as much as we're talking about the Canadian dollar, it's really a U.S. dollar story, a weakness in the U.S. dollar. You talked about the world demand for energy. You mentioned the petro loonie and the effect that's having. You also mentioned the bright spots in the economy, like growing international trade.

I note that only today I learned of over $100 billion in investment going to 27 companies in Ontario as a result of activity in Alberta's oil sands. Pretty significant economic activity is occurring as a result of the growth in the energy sector. On the economic and fiscal update that was launched on October 30, you made a number of comments.

There's been some comment with respect to government incentives. Some people might call that corporate welfare. I would like to get your comments as to whether you think the very significant reductions we have made in corporate taxes, along with the accelerated capital cost allowances that we've introduced, are more beneficial over the long term to the Canadian economy. Or should we be entertaining these various notions of corporate welfare?

Mr. Finn Poschmann: Thank you. That's a very good question. These are all very good questions.

The role of government here is to make sure that resources, meaning people and financial investment, can go where they're most needed. Markets are very good at that. Governments can help.

But before I carry on, there are real impacts on real people here when you have major economic shifts, and we shouldn't ever lose sight of that. What governments can do is make sure that those impacts aren't worse than they should be.

One of the ways that governments can make matters worse is by inhibiting movement of people by making investment in plants, processes, people, and training unattractive. Bringing down the effective tax rate on business investment is a pretty good way of helping backstop workers, by putting more and more plant and equipment in place behind each worker, improving the job environment, improving their productivity, and thereby improving the wage outlook for our employees. These are things that the government can do.

The tax measures discussed in the economic update are not bad, but we could go a lot farther in improving the investment environment.

Mr. Dean Del Mastro: Thank you.

Yesterday we had a number of straw polls here on the committee. One was a straw poll that asked panellists whether or not they thought the Bank of Canada should reduce interest rates, which leads to the notion that perhaps we're leaning toward asking people whether they believe the Government of Canada should intervene in the affairs of the Bank of Canada.

Do any of you believe the Government of Canada should intervene with the Bank of Canada directly to manipulate interest rates? Do any of you think that would be a good idea?

Mr. Robert Fairholm: No, that would be suicide. You don't want to have a directive from the finance department to the Bank of Canada to lower interest rates. That's not a very wise policy.

● (1620)

Prof. Mario Seccareccia: Needless to say, it is in the mandate of the governor to decide on interest rate policy—

Mr. Dean Del Mastro: Yes, I agree with you.

Prof. Mario Seccareccia: —and not the Minister of Finance. However, that said, we've had precedents, going back, that suggest that the fiscal authority could have a say ultimately about whether the governor is doing a good job or not, and hence indirectly have a—

Mr. Dean Del Mastro: No, no, I don't disagree that the finance minister has a role to play, absolutely. What I'm asking is should there be direct manipulation of the Bank of Canada by the Government of Canada?

Prof. Mario Seccareccia: Needless to say, no.

Mr. Dean Del Mastro: This is for any of you. If you did a straw poll out on the street asking a thousand people on the street whether interest rates should be lower, how many do you think would come forward and say that they think interest rates should be higher?

A voice: It depends whether it's Bay Street or Main Street.

Prof. Mario Seccareccia: Let me just say that the question you're posing should perhaps be expressed a little differently.

Mr. Dean Del Mastro: I'm just going back to a question that was raised yesterday, to point out that the question was invalid. I think most Canadians, if asked whether interest rates should be higher or lower, would always say lower; I would love lower interest rates. And I think that most Canadians—

Prof. Mario Seccareccia: What we should be asking, and the minister should be asking, is whether or not the governor is doing a good job right now. Indeed, this is of concern here.

Mr. Dean Del Mastro: No, I appreciate it, sir. I was just trying to point out—and you're doing it for me—how ridiculous yesterday's statement was. You're pointing that out for me, and I do appreciate that quite a bit.

Mr. Faucher, last year in Quebec we had 70,000 new jobs created. In Canada last month there were 63,000 new jobs created. We have record low unemployment of 5.8%. Income grew year over year by 4%. We also have record involvement in the workforce here in Canada.

By any measure, Canada is doing pretty well in a lot of sectors, isn't it. I'm not suggesting for a moment that there aren't challenges, but generally speaking, the economy, including in Quebec, is performing quite well right now.

The Chair: Time is running out.

[*Translation*]

Mr. Claude Faucher: It may well be that in certain circumstances, where some sectors of economic activity are negatively affected, others benefit for different reasons that I am not aware of. I am not an economist by training.

What we have noticed among the workers that we represent is that this job creation, which looks good on paper, does not translate into reality. The jobs that replace them are not of equivalent quality. They are jobs of the working poor, that is, people who are unable to earn a descent living, who work absurd hours, in unacceptable conditions. In short, that's what we must deal with.

[*English*]

The Chair: Thank you very much.

Now we'll move on to our last questioner.

Ms. Nash, the floor is yours for six minutes.

Ms. Peggy Nash (Parkdale—High Park, NDP): Thank you, Mr. Chair.

My question is for Professor Seccareccia. You had said earlier that Canada's dollar had appreciated higher than the currencies of other countries vis-à-vis the U.S., and that therefore factors other than the softening of the U.S. economy were at work besides. Then, I believe, Mr. Poschmann had talked about a petro dollar.

The boom in the oil and gas sector clearly is having an impact on our dollar, and that dollar is having an impact on the manufacturing sector. We're certainly not the only country in the world to have the booming oil and gas sectors having this impact on manufacturing. Can you give us some examples of what other developed countries have done to insulate their manufacturing sector from a petro currency?

Prof. Mario Seccareccia: I could give the example of Norway. The problem is that obviously we have a different system here constitutionally, but if I take the example of Norway, in fact they've also gone through the process. They have North Sea oil. They've gone through the whole period of booming oil prices, but they've set up a fund out there that is being redistributed in some ways.

Indeed, this is why I mentioned the equalization formula. We've been arguing over how we could get rid of oil revenues from that; well, I would argue that we should probably have even a bit more weight on that.

What's really going on is that regionally there are sectors. I have some figures here, just to show you. Since 2000, the share of oil out of total exports has tripled in Canada, so there are those who are benefiting tremendously from that.

● (1625)

Ms. Peggy Nash: So you're saying that Norway took some of those oil revenues and put them in a fund?

Prof. Mario Seccareccia: Exactly.

Ms. Peggy Nash: What did they do with that fund?

Prof. Mario Seccareccia: They are redistributing it nationally.

Ms. Peggy Nash: What do they use the fund for?

Prof. Mario Seccareccia: I'm not exactly familiar with all the details—perhaps somebody may be able to correct me on this—but what they've done is set up a separate fund for the purposes of being able to compensate and provide necessary funds for those sectors of the economy that have been hurt by it.

Ms. Peggy Nash: Okay. Thank you very much.

I would also like to ask a question—

The Chair: Did you want to hear from Monsieur Patry? He had his....

Ms. Peggy Nash: I'm sorry, yes, Mr. Chair.

The Chair: I didn't think you saw him.

[*Translation*]

Mr. Pierre Patry: I would simply like to add something because I find the question extremely interesting.

The impact of the rising dollar has been discussed, but one of the main reasons behind it is the Alberta oil boom. This boom has an impact by keeping the value of the dollar high, and if the Bank of Canada maintains the interest rates at a high level, then this accentuates the phenomenon, that is, the dollar remains strong. This has no impact, or at least less of an impact, in the provinces that have natural resources. But for provinces where the manufacturing sector is strong, such as Quebec and Ontario, it's a double whammy: over and above the impact of the rising interest rates, there is the price of oil that bolsters the value of the dollar. This cannot be overlooked.

In our economy, the manufacturing sector accounts for 21% of employment income and 90% of international exports. I don't know what can be done elsewhere in the world, but it seems to me that in Canada, the government could take action in certain sectors. The Bank of Canada should intervene in monetary policy, and the government should do its part by helping business. Otherwise, the entire manufacturing sector will collapse, in large part because of the price of oil which inflates the value of the Canadian dollar.

Ms. Peggy Nash: Thank you very much.

I would like to put a question to the witness representing the labour movement. We have been told that we have not yet felt the full impact of the economic situation on the manufacturing sector. Hundreds of thousands of jobs have been lost, and this will continue for a few years.

My question is the following: if jobs are lost in the manufacturing sector, in fact if companies are lost in the manufacturing sector, if we lose all sectors such as the textile industry and serious repercussions are felt, what will happen in future? Will we be able to recover these sectors? Will they be able to start up again down the road? What do you see in the cards, if we do not act now to solve the crisis in the manufacturing sector?

Mr. Claude Faucher: I see a very pessimistic outlook. Earlier I heard a colleague state here that the job losses we are currently seeing are just the tip of the iceberg, given that they came in the wake of the rise of the Canadian dollar, and so I'm doubly concerned.

People are claiming that in economic terms, it is the consumers who are benefiting, but I have seen no proof of that to date. Consumers must protest and lobby to see real price cuts. And even if prices drop, who does that help? Countries who export their products to Canada, importers and retailers who sell their products at prices that are about the same as production prices here, whereas we have no more jobs, and people are unemployed and experiencing problems. This situation is extremely troubling to me.

[*English*]

The Chair: Thank you very much.

I think we have to call it. Our time is actually over. I want to thank the witnesses for coming forward and thank the questioners.

We'll now have a very short pause as we ask our second panel to come forward to the table. As we shuffle the name tags, we'll adjourn for just a couple of quick minutes.

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(Pause)

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• (1630)

The Chair: This part of the meeting is the second session of our pre-budget consultation on this item, which is the impact of the appreciation of the relative value of the Canadian dollar.

We have with us now, from the Canadian Chamber of Commerce, Mr. Perrin Beatty.

We have a couple of witnesses who are coming. They're on their way. We'll start with you, and then I'll introduce the others as they come.

The floor is yours. We look forward to your presentation.

[*Translation*]

Hon. Perrin Beatty (President and Chief Executive Officer, Canadian Chamber of Commerce): Thank you Mr. Chairman, ladies and gentlemen.

I would like to thank the committee for having giving me the opportunity to present the viewpoint of the Chamber of Commerce of Canada on this important topic.

The Chamber of Commerce of Canada represents some 170,000 companies. Its members face numerous challenges every day. Most of them are affected by the appreciation of the Canadian dollar.

[*English*]

In a letter that I sent yesterday to the Prime Minister and to Canada's premiers, I proposed a number of immediate measures that can be taken to strengthen Canada's economy and to help our businesses grow and prosper. Many of our members face unprecedented challenges that grow daily. Fierce competition from emerging economies like China and India, weaker demands south of the border where 77% of Canada's merchandise exports go, and the stunning appreciation in the Canadian dollar since 2002 have created a perfect storm for export-oriented businesses and for companies facing competitors here at home. Canadian manufacturers are on the front line.

Since late 2002, over 330,000 manufacturing jobs have disappeared, more than 80,000 so far this year. The loss in competitiveness is evident in the rapid escalation of unit labour costs, which are the costs of wages and benefits of workers per unit of economic output. Unfortunately, Canada's productivity is rising too slowly to negate the lost competitiveness, and more challenges lie ahead. The Bank of Canada predicts that the Canadian dollar will average 98¢ U.S. through 2009, and Canada's economy will grow by 2.3% in 2008 and 2.5% in 2009. The Department of Finance and the Bank of Canada have stated that the risks to the Canadian economy are tilted to the downside.

• (1635)

[*Translation*]

Given the challenges that I have just mentioned, it is important to put in place competitive policies that would have a direct impact on our countries's productivity and prosperity and on that of all Canadians.

[*English*]

The Canadian Chamber of Commerce calls for immediate action. The government must put policies in place that encourage flexibility and adaptability, and lay the foundations for a more competitive economy. In our view, the federal government must work with provincial and territorial governments in a number of key areas.

The first area is to lighten the burden of regulation. Overlap, duplication, and fragmentation are time-consuming and costly, and they hamper Canada's ability to compete.

Second, we need to cut interprovincial trade barriers. Internal barriers keep firms from growing large enough to compete effectively in foreign markets, cause investors to look elsewhere, artificially raise prices, and increase the cost of doing business.

Third, as a nation we need to better utilize skilled immigrants through better recognition of foreign credentials, and improve labour market access and integration. Employers across the country are facing major labour shortages. Many foreign-trained professionals and tradespeople cannot put their skills to work. Employers also report long delays in the processing of people whom they've identified for specific jobs.

Fourth, we need to keep the Canada-U.S. border open for legitimate travellers and business. Border delays and complications harm productivity and jeopardize jobs. Additionally, rapidly escalating border compliance costs are wasting hundreds of millions of dollars each year, putting domestic producers at a serious disadvantage relative to their offshore competitors.

Finally, we need to ensure a competitive tax environment. The 2007 budget and the recent economic statement contained a number of positive developments to help business people compete, but more needs to be done. Significant economic benefits can be realized by eliminating provincial capital taxes, by harmonizing provincial sales taxes with the federal GST, and by making permanent the accelerated capital cost allowance for investment by manufacturers and processors in machinery and equipment.

Mr. Chairman, the Canadian Chamber of Commerce believes these measures provide an important first step toward a more competitive Canada. They should be implemented now as a means of helping Canadian businesses respond to urgent and growing pressures. To delay would risk the jobs of Canadian workers and the prosperity of communities across our country.

Mr. Chairman, I thank the members of the committee for their hospitality. I'd be delighted to answer questions and to respond to any concerns that they would want to raise.

The Chair: We want to thank you very much for keeping it in time and for being very succinct in your information. You must have had a lot of experience at this. This is great.

Hon. Perrin Beatty: My trait, Mr. Chairman, was to speak much longer than this.

Some hon. members: Oh, oh!

The Chair: We have next with us the Canadian Federation of Independent Business.

Ted Mallett, director of research, the floor is yours. You have five minutes.

Thank you.

Mr. Ted Mallett (Director of Research, Canadian Federation of Independent Business): Good afternoon, and thank you very much.

My name is Ted Mallett. I'm VP of research and chief economist for the Canadian Federation of Independent Business. On behalf of our 105,000 small and mid-sized business owners across Canada, I'm here to convey our perspectives and the recommendations we have on the economy and specifically the impact of the Canadian dollar on their operations.

This follows our written correspondence with MPs of October 31. We will be following this with other pre-budget recommendations in the coming weeks.

The value of the dollar is certainly one of the major factors, but it's only one of the factors, that businesses must deal with on a day-to-day basis. Those most affected are the ones that are trading directly. Our best and latest estimates are that approximately one-third of small to mid-sized businesses are directly affected by currency swings either as direct importers or direct exporters.

Another 15% or so are next in the production line in terms of selling or purchasing from direct importers or exporters. So roughly half our membership is either directly or mostly indirectly affected by trade, and therefore the other half are certainly less affected or insulated by these swings.

The dollar has been appreciating against the U.S. since 2003, but this latest surge in September and October has caught everybody by surprise. Normally, currency appreciation reflects good news. It means people are buying Canadian dollars. Good Canadian fiscal fundamentals, commodity and oil price strength, and an upbeat consumer and business sector have really contributed to this.

At this time, however, we're also dealing with a U.S. weakness, and it's one of the occasional instances, maybe not permanent, where we have a decoupling of the Canadian economy versus the U.S.

CFIB has been covering this issue explicitly since 2001. We have distributed a copy of our most recent business barometer to the members of the committee. It is a study we've conducted every quarter since the end of 2001. On one of the pages, page 5 specifically, we ask our members where they would prefer to see the Canadian dollar with respect to the operations of their business. It's really the only source of information that tries to get some neutral perspective on whether this is doing good work for their business or creating some hindrance.

Typically we find that 27% of our members would prefer to have a lower dollar, 21% would like to have a higher dollar, and the other roughly 52% would feel it has no huge impact on their businesses. But when you look at it by sector, you see a very different picture, or the picture is a little clearer.

The agricultural sector and the manufacturing sector are clearly more interested in a lower dollar. A few businesses are perhaps more domestically interested, but they are also sourcing products from the U.S. Therefore they would be benefiting from where the currency is now, but not the majority of manufacturers. But there are businesses like transport where 25% want to see it higher, 25% want to see it lower, and for the other 50% it's a toss-up. So not every business sees things the same way.

What's also interesting is that we've been asking this question since 2001, and these numbers haven't changed a whole lot. In 2003, for example, 32% wanted to have a lower dollar, 24% wanted to have a higher dollar, 35% said it had no impact, and 8% said “don't know”. This is when we had a 76¢ dollar.

So the good news from this is that normal can change: it's not an absolute measure, it's a relative measure. The issue here for small and large firms is the speed at which the currency changes and whether there is any forewarning about what's happening. This is where small firms are caught off guard. They've got long-term contracts, they've got inventory on the shelves that has already been priced, and they also have to look ahead six months. Where's the currency going to be in the future? So these are the kinds of challenges they have to deal with.

We certainly support the notion of the independence of the Bank of Canada; there's no measure the government can do directly to affect monetary policy. Monetary policy is a challenge in itself because we have two economies: one very strong out west and one somewhat weaker in the east. Monetary policy has to find that middle point, and it's very much a knife edge. So it's difficult at the best of times.

● (1640)

The recommendations that we have followed are the same ones we've recommended for years. They are investment orientation, let's get productivity enhancement in the Canadian economy, a reduction of regulations, relief of the more onerous forms of taxation, so that you can give a sense to businesses that things will get better in the future so that the marketplace can actually ensure that a business is succeeding or not. So government is essentially a neutral or a facilitating or supporting party, as opposed to a direct interventionist, in the marketplace.

I'd be happy to answer any questions of the committee, and once again, thank you very much for the invitation.

The Chair: Thank you very much for coming in and sharing with us. We'll be engaging you, I'm sure, in the questioning.

Now we'll move on to the president and chief executive officer of the Retail Council of Canada, Diane Brisebois. The floor is yours for five minutes.

Ms. Diane Brisebois (President and Chief Executive Officer, Retail Council of Canada): Thank you, Mr. Chairman.

While the Retail Council of Canada submitted pre-budget policy recommendations some time ago, which recommendations we would be pleased to discuss in more detail at a later date, I've chosen to spend the time allotted to us today to discuss the Canadian dollar and its impact on the retail industry in Canada.

RCC speaks for an industry that is vital to the daily lives of all Canadians, and numbers relating to the industry are huge. There are more than 227,000 retail locations across the country and we employ over 2.1 million Canadians.

Reports in the media comparing Canadian and U.S. retail prices for various products have given consumers the impression that with currency parity comes price parity. There are a large number of factors that can create differences in final retail prices between jurisdictions, and many of these tend to push prices higher in Canada, as much as we would like to ignore it. Some reflect fundamental structural differences between the two countries; some reflect policy differences; and some reflect competitive factors. However, as you know, the general realities are that the Canadian market is one-tenth the size of the U.S. market. The cost of doing business in Canada is higher, given our higher labour costs, transportation and logistics costs, and so on. We're very grateful for the many benefits that come with being Canadian, but they do come at a premium.

From an operational perspective, retailers often purchase merchandise up to 12 months before it appears on shelves. This means that many of the products on the shelves this holiday season were purchased when the Canadian dollar was valued at 85¢ American. This presents a challenge for retailers in delivering prices for Canadians that fairly reflect the value at which they purchased the product.

Contrary to popular belief, the great majority of retailers, regardless of size by the way, purchase their goods through Canadian manufacturers, subsidiaries of North American household brands, distributors, and wholesalers. That means that they purchase in Canadian dollars. Thus they have not benefited from the currency exchange, unless those savings were or are being passed through by the manufacturers.

Prices for consumer goods have risen more slowly than those for consumer services and many categories, such as electronics and clothing, have experienced absolute price deflation. We believe that will continue in 2008.

This rise of the Canadian dollar and retailers' shift to offshore sources of supply have played a major role in restraining prices in those categories. Again, we suspect that we will see more and more retailers go offshore to source their products. However, retailers in Canada pay significantly more by way of import taxes to bring goods to market.

As I noted a moment ago, many of our retailers will outsource or will go to China, Asia, or Europe to import products. There is a huge deficit in looking at how retailers pay in Canada and how retailers pay in the United States. For example, generally to import from Asia a pair of steel-toe boots, a retailer in Canada pays a 17.5 % duty versus 8.5 % for a retailer in the U.S. To import cribs, Canadian retailers pay 6 % duty versus zero in the U.S. To import pads for hockey or soccer for sports for children, retailers in Canada pay 15.5 % duty versus zero in the United States. A retailer in Canada pays a 5 % duty on a very popular product that seemed to be in the media quite a bit lately, and that's an MP3, an iPod. A retailer bringing in that product, an equivalent product from Asia, pays a 5 % duty in Canada versus zero duty for retailers in the U.S.

There are hundreds upon hundreds of similar examples that put retailers in Canada—and, I would suggest, importers as well as manufacturers in this country—at a significant disadvantage to their American competitors.

● (1645)

The RCC wants to work with the federal government to help level the playing field here for retailers—small, mid-sized, and large. We urge this committee and the government to eliminate those duties that put businesses in Canada at a disadvantage, and obviously an even greater disadvantage for our small entrepreneurial merchants across the country who are also importing products.

Ladies and gentlemen, I'd be pleased to answer any of your questions.

Thank you.

The Chair: Thank you very much.

For the committee's information, we have two witnesses who have not quite arrived, but we expect them any time, so we'll start our questioning. We'll try eight minutes—you can split the time between parties, if you'd like—and we will interrupt when they come in order to hear their five-minute testimony.

Is that fair?

Yes, we'll limit the NDP.

We'll start with the Liberals.

Mr. McKay, go ahead.

Hon. John McKay (Scarborough—Guildwood, Lib.): Previous witnesses have suggested that, on the monetary front, the most useful thing to do is to encourage the Bank of Canada to lower interest rates. If in fact you lower interest rates, in an environment where we already have full employment, or low unemployment, if you will, generally that would act as a stimulus in the economy. If it acts as a stimulus in the economy, that's going to, in turn, put upward pressure on wages, which in turn presumably makes us somewhat less competitive in the very industries that you represent. Does that analysis resonate with you? Does it make sense?

Secondly, in terms of the fiscal responsibility on the government side, wasn't the latest GST cut essentially a waste of the stimulus space that's available? If you put in an interest cut and the GST cut, you have two stimulating effects on what is essentially a full-employment economy, and that in turn might exaggerate the inflationary impacts on the economy.

I'd be interested in comments from all three of you on that. Thank you.

● (1650)

Mr. Ted Mallett: I'll go first.

On the first question, with respect to the stimulus or reducing interest rates, what certainly happens is that an interest rate reduction will have impacts throughout the economy. It's not just wages that would be affected. Wages are an indirect result of other things happening with respect to things like business investment. Really, the idea is that the interest rate cut would encourage investment in equipment, fixed plant, and therefore, the productive capacity of the economy increases, and therefore, wages are able to increase because of productivity.

On balance, certainly the idea that an interest rate cut would be stimulative would not necessarily harm the economy. We think it would be of benefit, on average. The difficulty is that we have a red-hot economy in some parts of the country, and a very cold economy in some other parts, but we have only one interest rate. The idea that we can deal only with one segmented issue is very difficult, and it's a challenge for the Bank of Canada governor to get that measure just right. So there certainly is pressure, or certainly with the latest news of price reductions or easing of inflationary concerns in Canada, there now is some more room for interest rate cuts.

Getting to the GST issue, whether you reduce GST by a percentage point or you apply that to, say, a personal income tax rate cut, it will be more or less the same thing. Personal income tax is just as effective as the GST, in our view, because largely, home ownership is exempt, or capital gains are exempt, as well as RSPs are tax exempt.

So the impact of GST versus personal income taxes is roughly equivalent in terms of how they would work in the economy. They were needed because we have a large fiscal surplus at the federal level, and it's important to bring that back to the government.

The Chair: Thank you.

Mr. Turner, you have four minutes.

Hon. Garth Turner (Halton, Lib.): Thanks very much.

My question is to Diane, from the Retail Council of Canada.

The Minister of Finance, as we all know, had a press conference recently at which he held up a Harry Potter book and talked about the differences in pricing between Canadian and American editions. He gave a strong indication that Canadian businesses are to blame for gouging consumers. The minister suggested that prices could and should come down, and it was the responsibility of corporations to do that.

Did the Minister of Finance actually exacerbate the problem? Is he creating an expectation on the part of consumers that because our dollar goes up, prices should automatically go down; and does that damage your industry, your sector?

Ms. Diane Brisebois: There's absolutely no question.... I'm not sure if the minister's comments damaged as much as misled consumers into believing that if the Canadian dollar goes up, prices will go down immediately. I think the challenge here for retail in Canada is that a great majority of the products are bought from Canadian distributors, which is the irony here. They are not bought directly from the U.S. In fact, even the largest retail companies in this country cannot buy a multinational brand from the U.S. brand owner. They must go through a Canadian distributor, and there is such a thing in Canada as country pricing.

● (1655)

Hon. Garth Turner: Yes, I understand that.

I'm quite interested in this because the Minister of Finance is in a very influential position in our society. He influences consumer's attitudes, he gets massive media, he called a press conference on purpose, after meeting with you and other industry representatives. Did that press conference accurately reflect what happened in your meeting, or was the Minister of Finance freelancing with his own agenda?

Ms. Diane Brisebois: The press conference did not reflect the discussion that took place. I think that would be the honest answer. The retail industry was to meet with the minister, it was not the other way around, and we were there to talk about the pressures of the Canadian dollar.

So saying that, we—

Hon. Garth Turner: If I could just jump in for a minute, you're saying the press conference did not reflect what happened in the meeting. Well, why did the minister say what he did, then? Was he not listening to you?

Ms. Diane Brisebois: I think the minister was listening to the industry. I think the minister was trying to reflect the mood of consumers. I think, though, that what we were hoping would happen was to ensure that this was not a sound bite, that this was explained clearly. It's taken some time...and we suspect that the message is clearer today.

It has not helped the sector, if that was the first question you asked; it did not help the sector.

Hon. Garth Turner: It has not helped the sector. So what the minister said and did in his press conference actually made it more difficult for you in the sector, and perhaps accelerated job loss if you have problems in the sector?

Ms. Diane Brisebois: No, it did not. I don't think the minister would be responsible for job losses. However, what it has done is to create an enormous amount...or a great challenge for independent merchants across this country, especially the independent merchants—

Hon. Garth Turner: How about cross-border shopping? Has it accelerated that?

The Chair: I'm sorry, that's all the time Mr. Turner has. We'll move on to the Bloc.

Mr. St-Cyr.

[*Translation*]

Mr. Thierry St-Cyr (Jeanne-Le Ber, BQ): Perhaps we can first hear the testimony of Mr. Laliberté.

[*English*]

The Chair: Yes, we can do that. We have another individual to testify, but we certainly can break at this time and hear the testimony from Pierre Laliberté.

The floor is yours for five minutes, please.

[*Translation*]

Mr. Pierre Laliberté (Political Advisor, Fédération des travailleurs et travailleuses du Québec): Thank you, Mr. Chairman.

I am replacing Henri Massé, who was unable to be here because of a bald cold. Given the state of the manufacturing sector, he would have liked to be here to speak to you in person.

As we speak, the repercussions of the dollar's appreciation have been significant and devastating. Yesterday, you heard other witnesses from the labour movement, and probably also export manufacturers, who corroborated that view. Therefore, I will not go into detail, but I would like to point out that in Quebec, 130,000 jobs have been lost since the dollar began to appreciate. As a result, over the past four years, one out of five jobs in the manufacturing sector has been lost. The situation is even more dire than it was during the last two recessions, when the manufacturing sector went through a major crisis.

What is our position on this? Even if it was somewhat of a last-minute thing, we are very pleased that you are holding this discussion, because we feel that the federal government has been complacent and almost criminally negligent in this regard. It is downplaying the problem because the employment rate is reasonable compared to past years, but it is failing to take into account the crux of the matter, that is, the structuring effect of the manufacturing sector on the Canadian's economy.

Currently, businesses are extremely reluctant to invest. I can say this as an union representative and as an employee of a trade union confederation that is partnered with a major investment fund in Quebec. Canada and Quebec already had a challenge to meet even before the dollar reached its current level. They had to renew their technological facilities and upgrade their equipment in order to respond to increase competition, particularly from Asia.

The appreciation of the dollar has made this task almost impossible. Our currency soared from 62 cents to over one dollar in US funds, and therein lies a big part of the problem. People are unable to predict when the volatility will end or how high the dollar will rise, making any kind of reasonable planning very difficult. Even with all kinds of tax credits or accelerated investment write-offs, measures which should help in principle, planning would still be very difficult.

The basic message that I want to convey to you today is that we need to address the issue for the monetary system and the value of the dollar. As an anchor of the economy, our dollar, in terms of productivity and unit labour costs, is worth about 70 cents or 75 cents US. In terms of purchasing power parity, it is valued at between 80 cents and 85 cents US. Clearly, our dollar will continue to be worth more than the US dollar for sometime, mainly for reasons relating to the natural resource industry, particularly the oil industry.

● (1700)

We have nothing against those industries that are doing well. However, you must keep in mind that the oil boom is causing what the Pentagon would call collateral damage, and that the Canadian government as well as the Bank of Canada are directly responsible for finding ways to curb those increases.

We have seen the government pass the buck to the Bank of Canada, which responded that, under its mandate, it had to keep inflation under 2%. The problem of a 2% or 2.5% inflation rate is quite minor compared with that of an over-valued dollar. I would be pleased to go into the details with you and share some avenues that we believe could be pursued.

[*English*]

The Chair: Thank you very much.

We'll now move on. We have Option consommateurs.

Michel Arnold, the floor is yours for five minutes, please.

[*Translation*]

Mr. Michel Arnold (Executive Director, Option consommateurs): Thank you, Mr. Chairman.

I had not been notified that the committee's work schedule had been moved up, which is why I arrived late. I sincerely apologize for that. The wrong person had been notified.

Mr. Chairman, members of the committee, I would like to thank you for giving us this opportunity to share with you our comments on the impact of a surging Canadian dollar.

Option consommateurs is a non-profit organization that promotes and defends the rights and interests of Canadian consumers, and ensures they are respected. Our organization was founded in 1983. It includes a legal department, budget services and a news service, and also conducts research into the agrifood, energy and financial services sectors in order to properly understand the needs of consumers and adequately defend their rights.

We have been doing work in the financial services sector for a number of years. Among other things, we took part in the debate that led to the adoption of the latest legislative amendments to the banking sector. We are currently helping to make changes to a number of administrative rules at the Canadian Payments Association, and we will soon be engaged in drawing up the code of conduct for the electronic transfer of funds.

As you are no doubt aware, the Canadian dollar has risen by over 50% compared to a number of other currencies. Whether it be the American dollar, the Japanese yen, the Hong Kong dollar, the Mexican peso or other currencies traded on the international currency market, all have lost value compared to our dollar. Given that those countries are our largest trading partners, Canadian consumers should normally pay less than in the past for shoes imported from China, US automobiles, Mexican tires, imported CDs, DVDs and books, as well as electronic goods. And yet, according to our research, that is not the case. In fact, the steady rise in value of the Canadian dollar over the past five years has not led to a drop in prices for consumers, far from it.

According to Bank of Montreal economist Douglas Porter, the 50% increase in value of the Canadian dollar over the past five years has had almost no effect on retail prices. To make his point, Mr. Porter compared the prices of some of the same products sold in Canada and the United States. He uses the following examples: greeting cards, the Honda Accord and the BlackBerry 8100. Those items cost respectively 20%, 14% and 10% more in Canada.

Following the publication of this article, Option consommateurs also began monitoring changes in the prices of a number of goods sold both in Canada and the United States. We have been doing that since last June. We are now seeing that the prices of certain goods are between 3% and 40% higher in Canada. Strangely enough, Canadians are paying more for the 2008 Honda Civic Coupe, even though it is built and assembled in Ontario. We have also noted that the prices of the items we are tracking have changed very little in the past two months. Of the 11 products that we are monitoring, only two have seen their prices drop. However, those decreases were not enough to make the products less expensive in Canada than in the United States.

In light of this, consumers are getting impatient and feel like they are being taken advantage of. To a certain extent, they can understand that imported goods would cost more here than they do in their countries of origin: after all, we have to pay shipping on those goods. However, Canadian consumers want to benefit from the rising dollar, which is lowering the relative price of goods. As well, Canadians cannot accept the fact that an identical product can be sold for as much as 56% more in Canada than it is outside the country.

Another interesting study, this time from the US, is the *Federal Reserve Board study of cross-border consumer prices*. It shows that the price difference between products sold in Canada and those sold in the United States is not based on rational economics. According to the study, shipping costs alone cannot account for the price differences. An unexplained “border effect” is causing a sudden increase in the price of products coming through the Canadian border. We have also noted that the retail trade market is increasingly less competitive, and that big box stores are taking up more and more market share.

● (1705)

All the same, we would like to make three recommendations. In any case, you will receive my speaking notes, which will provide additional details to back up our recommendations.

Our first recommendation is that the government conduct a review of the Competition Act in order to, among other things, make the Competition Tribunal more effective.

We also recommend that the government provide SMEs with additional assistance given the over-concentration in retail trade brought on by the big-box stores. The mission and mandate of the Economic Development Agency of Canada for the regions of Quebec could be adapted to that context.

Finally, we recommend that the government ensure that the concentration of financial institutions not impede the development of new businesses. Our institutions have to act to prevent the vast majority of Canadians from being short-changed.

[*English*]

The Chair: Thank you very much.

We'll now move on to Mr. St-Cyr. Are you taking all eight minutes, or are you splitting?

[*Translation*]

Mr. Thierry St-Cyr: I thank you for being here this afternoon. I apologize to those who were notified too late and who did not know that we had move our agenda forward slightly.

I would like to come back to the manufacturing sector. There is a fundamental difference in philosophy among the various Canadian economic stakeholders. The following question is not asked that often: are we abandoning the manufacturing industry? That is more or less what the government is doing. Today, we heard from members of a previous panel that if there are no more jobs in the manufacturing sector, all people have to do is to move to Alberta, because that's where jobs are.

On the one hand, you have the *laisser-faire* approach. This is the approach adopted by the government, which has decided to cut taxes. Mr. Laliberté clearly explained that lowering taxes in no way helps companies that are not profitable and are facing problems.

On the other hand, the Bloc Québécois believes that manufacturing remains at the heart of our economy. If we do not want our economy to collapse in 10 or 15 years, once the oil boom has passed and our natural resources have been depleted, we have to act now. Yesterday, the representatives of the Quebec Federation of Chambers of Commerce used the example of the Dutch disease effect. That is exactly what happened. When oil was discovered, the country rushed headlong into its extraction, and the manufacturing sector was left to self-destruct.

Mr. Laliberté, you said that you might have some potential solutions to propose to those who want to truly defend, develop and protect our manufacturing sector. What would you suggest to committee members?

● (1710)

Mr. Pierre Laliberté: I believe we have to act on a number of fronts.

First of all, we absolutely have to deal with workforce adjustment. Clearly, some industries are expanding. We have to make sure that the people who will be transferred from one industry to another receive the necessary training. That said, there simply are no resources. Even in these times of economic growth and budget surpluses, they do not exist. Or at least there should be more plentiful than there are.

Second, we have to develop strategies. Clearly there has to be a repositioning of the manufacturing sector in Canada. We cannot produce low-end commodities in the current global context. That might change, but such a strategy is not sustainable at this point in time. However, there are promising sectors in each industry. Information is needed to develop them, and businesses, especially the SMEs that are under equipped for technology watch and market intelligence, must have access to direct services that can help them reposition themselves and modernize their equipment.

Third, Canada has to deal with macroeconomic conditions. Today, the fact that our dollar is worth more than the US dollar is a disaster in waiting. The situation is due in large part to the boom in resources and to currency speculation. People want to buy into the boom.

That is a perfect description of Dutch disease. Our economy could be in for a rough landing because of very strong growth in one sector. In that regard, we suggest that dealing with the currency level be part of the Bank of Canada's mandate. We cannot afford to be as careless as we are now. As well...

Mr. Thierry St-Cyr: I would like to stop you for a few seconds.

I do not know whether the Conservative members are as interested in the French-language testimonies as we are, but...

Mr. Pierre Laliberté: It appears not, but that doesn't matter.

Mr. Thierry St-Cyr: ...could you please keep it down?

[*English*]

The Chair: Just carry on.

[*Translation*]

Mr. Thierry St-Cyr: If not, you can do so outside.

[*English*]

Mr. Rick Dykstra (St. Catharines, CPC): Just do your work—

The Chair: Order!

Mr. Dykstra....

Carry on.

[*Translation*]

Mr. Pierre Laliberté: That was the first thing.

Second, measures can be adopted. In fact, once speculation or short-term capital flows have been identified as a source of the problem, Canada's monetary authorities can act in a number of ways to slow or stem the phenomenon. All that is needed is the will and the imagination to implement these measures. Some emerging Asian countries have used similar measures extensively in the past, precisely to lend some leeway to their macroeconomic policy.

Third—and I think this is one of the biggest pitfalls we face—China has a competitive advantage over us that is completely unfair, on the one hand because it is manipulating its exchange rate and, on the other, because it has pegged its currency to the US dollar, which is in free-fall. Under the free trade agreements that we signed at the WTO, there is nothing that prevents us, Mr. Chairman, from adopting countervailing tariffs to stem that unfair competition. The Americans have raised that issue, but we are caving in as usual. I think that Canada and other countries will have to start making the case that this monetary disorder simply cannot work.

Thank you.

● (1715)

[*English*]

The Chair: Okay.

Mr. Crête, you have the rest of the time. It's a little less than two minutes.

[*Translation*]

Mr. Paul Crête: Mr. Arnold, with respect to the price difference between Canada and the US, do you think it would be a good idea to give the Commissioner of Competition the ministerial mandate to launch a joint inquiry on the matter with her US counterpart? Doesn't the current legislation—and I know it's amendable—allow for a short-term study? Wouldn't this be something worth exploring since it would give us an accurate picture of what is currently going on, specifically with respect to real competition?

Mr. Michel Arnold: Absolutely. I think it would be a good idea to go even further by demanding a review the Competition Act. In fact, 60% of retail trade is in the hands of four major companies: Wal-Mart, HBC, Sears, and a fourth company who's name I have forgotten. They're all listed in my notes. These four companies effectively control 60% of the market. So yes, I think there are grounds to look into why prices have not been adjusted at a time when the dollar's value is appreciating. Why is it that competition has not been factored into the equation?

[*English*]

Ms. Diane Brisebois: I need to add something here, because it's fascinating that they want the Competition Bureau to be involved, yet at the same time I'm hearing there should be more tariffs to protect us against China.

In fact, if Option consommateurs had been doing its homework, it would know that the great majority of the products sold through, supposedly, those very big retailers—about which your figures are wrong, by the way; there's been an increase in independent merchant growth, both in Quebec and across Canada—are set by multinational firms. I think you may want to ask maybe the Gillettes, the Proctor and Gambles, the Hondas, and all of those—

The Chair: If you'd just address him through the chair, Ms. Brisebois, it would be better.

Ms. Diane Brisebois: I think we need clarification here. I just could not sit and listen to all of that misinformation about the retail sector in Canada.

Thank you, Mr. Chairman.

The Chair: Thank you for that information. That is the end of the questioning.

We'll now move on to Mr. Dykstra.

Mr. Rick Dykstra: Thank you, Mr. Chair.

That was actually the conversation we were having over here, so we were paying very close attention to Pierre's comments, and I appreciate....

Diane, did you have anything else to add to this? I have a little bit of time, and I sure would like to hear a bit more of the countervailing arguments to what we're hearing from our other two presenters.

Ms. Diane Brisebois: It's appropriate to use the word countervailing.

The only thing I would add is that it would be a disservice to this committee not to double-check information that's provided. To simply say that four merchants in this country represent over 60% of the market is quite amazing. Second, to say that there is no growth in the market is also amazing. Third, to say that it's the retail community in Canada that sets these high prices to make sure people don't shop in their stores is also quite amazing.

I would suggest we ensure that we provide the right information so that we can discuss the Canadian dollar in an appropriate way.

Mr. Rick Dykstra: Thank you very much, I appreciate the clarification.

Mr. Beatty, I know it seems like such a long time ago since we started our committee meeting, but you raised a very interesting point with respect to interprovincial trade barriers. I wanted to get your thoughts on the British Columbia-Alberta Trade, Investment and Labour Mobility Agreement, which was signed between those two provinces last year.

One of the objectives that we believe in—I think the government is on track with it, and the minister has stated this—is that these interprovincial trade barriers need to come down. Those types of issues need to be resolved. And most clearly indicative of the effect of these barriers is that our North American free trade act actually positions us better to deal with the United States and Mexico than provinces can deal with other provinces.

I wanted to just get your thoughts on that from a small business perspective.

● (1720)

Hon. Perrin Beatty: Mr. Chairman, I was part of the government that brought in the Canada-U.S. Free Trade Agreement twenty years ago, and if anybody had said to me twenty years ago that we would be having free trade with the United States and Mexico but not within Canada, nobody would have believed it. What we've done by putting barriers in place that balkanize our domestic economy is we've driven up the cost of doing business in Canada. We've cost ourselves jobs, we've put our Canadian industry at a disadvantage relative to foreign competitors.

TILMA represents an important step forward, but this is a two-province initiative that's being taken. We need to extend that. We need to put teeth into procedures and we need to see action taken by the private sector, by provinces, by the federal government to knock down internal barriers to trade in Canada. Consumers and business and governments alike will benefit from that, but we need leadership.

Mr. Rick Dykstra: Thank you very much.

To you, Mr. Mallett, I was surprised by the numbers. Part of the reason we agreed to move forward with this investigation or this review, if you will, of the Canadian dollar is the work that you did. I'm always impressed with the fact that CFIB takes the time to make sure that they're hearing what their members are saying. I'm quite shocked to see how many sectors actually either prefer a high dollar or have no preference either way. I know that it's definitely an impact. I don't know whether you were surprised or not, but I'd like to get some further comments from you.

I know that it's in a graph or in a chart that you've given to everybody, at least to everyone around the table, and it's quite shocking to see how few of the industries—at least from their perspective—are actually directly impacted, or are not impacted at all, by the dollar.

Mr. Ted Mallett: What's interesting is that we conducted a survey on trade in 2003-04—this relates to my earlier discussion about 50% being directly or indirectly affected by trade issues and the other 50% not—and those numbers are reflected in our other surveys that show whether members would like to see a higher or lower dollar.

To some degree I'm a little surprised, but I'm never surprised when we keep getting consistent results. We're getting results of 8,000 small and mid-sized business owners every year on this issue, and we've been surveying on it for six years now. So these are pretty robust perspectives.

I think what we see is that certainly bad news travels faster and is heard more effectively than good news.

Mr. Rick Dykstra: That's a great quote, Mr. Mallett, a great quote.

Mr. Ted Mallett: Thank you.

On the issue of those benefiting, sometimes you benefit but it's much more diffuse. You benefit in much smaller chunks than the harm, and that's what I think we're finding. There is real hurt in the manufacturing sector. There is real benefit in other areas of the economy. And that is part of it; I mean, that's why we're here.

Mr. Rick Dykstra: I'm going to turn the mic over to my colleague, but one thing I did want to note just as a follow-up to that is despite the gloom and doom from across the row here from the opposition, full-time employment plans and expectations are certainly very positive from a small business perspective across this country.

Thank you.

Mr. Ted Mallett: Those are our September numbers. I believe we've seen good results.

The Chair: Mr. Wallace, go ahead.

Mr. Mike Wallace (Burlington, CPC): Thank you, Mr. Chair. I'll be very quick. I only have a half a minute anyway.

On the chart that my colleague was talking about in terms of the percentages, can you provide me or the rest of us with what the raw numbers are? If you only have three members who are in the agriculture business, just to use an example, it isn't much. Could you provide me the breakdown of where those numbers come from in terms of what the actual—

Mr. Ted Mallett: Our membership is highly representative of the economy itself. So manufacturing is approximately 10% to 12% of our membership; construction, about 10% to 15%; retail is approximately 25% of the membership; and agriculture, around 6%.

Mr. Mike Wallace: I might give you my card, and if you can send that to me afterwards, I would appreciate that.

● (1725)

Mr. Ted Mallett: We can do that. Sure.

Mr. Mike Wallace: My other comment is that I think it's been clear, we've had two days—

The Chair: If we could all have that information, that would be great.

Mr. Mike Wallace: Yes.

It's been clear from the vast majority of people we spoke to in the last two days that the expectation that the Government of Canada will get involved with the Bank of Canada and make them change interest rates is none of our business; it's up to the Bank of Canada to make those decisions. There has been some discussion, and I quoted the former finance minister, who was a Liberal, in an article in the *20/20* magazine, the Canadian Manufacturers and Exporters magazine, which I know you're familiar with. He is saying in that magazine that it's mostly about productivity, and that if we really want to make some progress as a country, productivity is an issue.

I would appreciate any comment that the honourable Mr. Beatty would like to make on that.

Hon. Perrin Beatty: Mr. Chair, I strongly agree about the ability of the Bank of Canada to affect interest rates when the underlying pressures that we're dealing with—dramatic escalation in terms of commodity prices, particularly in the energy field, and the weakness of the American dollar—put very strong upward pressure on the Canadian dollar. My colleagues have talked as well about the mixed impacts there are in the economy. The fundamental question we should be asking ourselves is where should we be looking for action?

The Bank of Canada has relatively restricted room to manoeuvre on this, because the pressures are largely external. The real issue now is for governments and for business alike to make sure that we have our house in order, and to focus with laser-like precision on the whole issue of competitiveness. Governments, both federal and provincial, can take action now that can help to ensure that all businesses across Canada can be more competitive. Businesses themselves have to reinvest in capital and equipment. They have to reinvest in upgrading the skills of their workers. They have to develop new business plans, unconventional partnerships, and do a whole range of other things. But we need to have a sense of urgency on that.

To the extent to which the focus is on the Bank of Canada, I think we're diverting our attention from the fundamental issue, which is the productivity in Canada and the underlying competitiveness of us relative to our trading partners.

The Chair: That's it, time is up.

Ms. Nash, you have four minutes. Go ahead.

[*Translation*]

Ms. Peggy Nash: Mr. Laliberté, what kind of measures would truly and effectively help the manufacturing sector: across-the-board tax cuts or tax measures targeting those sectors currently experiencing problems?

Mr. Pierre Laliberté: In fact, we are already rather competitive in the area of taxation. There used to be a slight difference in the area of the taxation of capital, but the gap is gradually narrowing. If the government is to provide support, it must be targeted. Without being a producer as such, the government, to my mind, must become an industry facilitator. We need this kind of support. In the real world, in other countries, this is exactly what is happening. Nowadays, no major industry has any hope of expanding without the government in office providing ongoing support and buying the product that is being produced. This may break some of the basic rules of the economy, but this is the hard truth. We are not talking here about a theoretical model where all problems resolve themselves.

A concerted effort would be required. However, we've observed that in Canada, this is difficult to come by. I do not understand why that is so. In Quebec, cooperation is sometimes easier to achieve, but in the rest of Canada, it seems harder to get people to sit down and work together.

Contrary to what Mr. Beatty said, I do not believe, unfortunately, that monetary factors are minor. I wish that they were nothing more than a nuisance. On the contrary, their influence is significant. The reason we seem nervous and agitated over this issue is because we have the impression that people in Ottawa have not grasped the urgency of the matter. We are not in a recession. The global economy has recorded its five best years of growth since the 1970s. This has happened in many other sectors. However, if the US economy goes into a recession in the months to come, as many are predicting, it is not going to be pretty.

In that respect, we have to be intellectually honest and admit that we must show greater creativity and develop team spirit. This is exactly what we need to do in order to face up to this situation. I'm a bit disheartened to hear that some people are still trying to work the situation to their advantage. We need to reject this way of thinking.

Thank you.

● (1730)

Ms. Peggy Nash: Mr. Laliberté, some say that the manufacturing sector is a part of the old economy and that we are now moving towards a knowledge-based economy. What do you think?

Mr. Pierre Laliberté: Mr. Beatty could give you more exact figures than the ones I have here. The manufacturing sector accounts for 60% of R & D in Canada. To innovate means to improve a product's performance or to produce that product more efficiently. This does not happen through some magical process. Many industries are shutting down. If, for example, footwear is no longer manufactured in Canada, research in this area will come to a stop as well. That's obvious. The sporting equipment industry was once a very large sector in Quebec, but it has practically disappeared. Who is going to design better ice skates? Certainly not the Chinese, I can tell you that.

[*English*]

The Chair: Thank you very much.

We have one more very quick question. We've offered one over here. There are two members who did not have an opportunity, so we'll give Mr. Menzies a couple of minutes; it's very tight.

Mr. Ted Menzies (Macleod, CPC): Thank you, Mr. Chair. I'll do it very quickly.

I've heard some very troubling statements. I don't like to individualize any witness, but Mr. Laliberté's first statement concerned me greatly.

You suggested that we should bring the dollar back down to 75¢ comparable to the U.S. dollar. That concerns me greatly. It suggests that Canadian businesses can't compete unless it's at a 75¢ dollar. That's very troubling.

You talk about creativity and working together, and yet you seem to have no suggestion of how that should happen. Working better and expecting no profit, that is very concerning to me.

Can you please clarify those comments?

Mr. Pierre Laliberté: What I said, essentially, is that when you try to establish what should be the fair value of the currency, there are many yardsticks you can use. But one yardstick that is surely a good one is to look at how productive your economy is relative to another one. If we compare how productive Canada is relative to the United States of America, we're unfortunately not as productive, and that differential is around that 20% to 25% that I mentioned.

Now, whether the currency should be set at that level is another issue altogether, but certainly not....

I'm sorry, go ahead.

Mr. Ted Menzies: One final clarification: did I understand you correctly, that no business should expect to survive without government support?

Mr. Pierre Laliberté: You know, this is the problem I mentioned earlier—

Mr. Ted Menzies: Yes or no, please. We both have to—

Mr. Pierre Laliberté: —and maybe because I said it in French, you didn't understand it.

Mr. Ted Menzies: Well, maybe it's the translation. So could you please clarify, yes or no?

Mr. Pierre Laliberté: Basically, my point—

Mr. Ted Menzies: Yes or no?

A voice: No.

Mr. Ted Menzies: We have two different answers then.

The Chair: I want to thank the witnesses for coming forward. We'll take your testimony into serious consideration as we consider our report.

The meeting is adjourned.

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