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Chair

Mr. James Rajotte

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● (1535)

[*English*]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): I call to order the 12th meeting of the Standing Committee on Industry, Science and Technology. We are continuing our study of the impacts of the appreciating value of the Canadian dollar on the Canadian economy.

We have three witnesses here today, two by videoconference, and one in person.

First of all, from the Canadian Auto Workers Union, we have the chief economist, Mr. Jim Stanford; and from the research portion of the CAW, Mr. Angelo DiCaro. Welcome.

As well, from the Canadian Labour Congress, we have here in person Mr. Andrew Jackson, national director of social and economic policy. Welcome.

I believe we will start with you, Mr. Stanford, for up to ten minutes, and then we'll go to Mr. Jackson.

Dr. Jim Stanford (Chief Economist, Canadian Auto Workers Union): Thank you very much, Mr. Chair and members, for the opportunity to participate in these hearings today.

I'll just quickly introduce the CAW. Canadian Auto Workers is Canada's largest private sector trade union. We represent currently about 260,000 members, working in a wide range of sectors—we count at least 16 different economic sectors—in Canada. The auto industry is obviously the financial core of our organization, but the auto industry per se only represents about 30% of our members. The rest work in a wide range of manufacturing and service occupations.

The impact of the high Canadian dollar has been felt very acutely by our auto members, but not exclusively by them. In many of our other sectors, the Canadian dollar has been exacting a very negative impact on employment, investment, and export opportunities.

In terms of the impact of the rise of the Canadian dollar, up by about 60% since 2002, we have acknowledged that it has already contributed to the loss of over 300,000 direct positions in the manufacturing sector in Canada. We recently went on the record as saying that if the dollar stays at or near parity with the U.S. dollar—in other words, if the dollar stays where it is roughly today—we will lose at least another 300,000 jobs on top of the 300,000 that have already been lost.

The impact of the high dollar is felt on investment and employment plans, with a lag that is very similar to the lag between interest rate changes and real economic production. About two to three years is what it takes for the changes in the dollar to trickle down into their full impact on investment and employment in manufacturing and other sectors.

That is for a range of reasons. A number of companies, particularly the larger ones, hedge against currency fluctuations, and that gives them a bit of a cushion for a while against the rising dollar, but that runs out. Many of them are engaged in longer-term supply contracts in the auto parts industry, for example. It's quite common for companies to have a five-year contract to supply parts to a particular assembler. So they will continue supplying those parts even if they end up losing money on the contract. There is also just a simple inertia in business decisions as executives respond to the new situation and eventually take the desired course of action.

The implication of this two- to three-year time lag is that the 300,000-plus jobs that have already been lost in manufacturing are the result of the rise in the dollar up until about 2005 or 2006. We have not yet seen, I would say, even the first part of the industry's adjustment to the subsequent rise in the dollar over the last couple of years. In other words, from the mid-1980s, up to a peak of $1.10 U. S., now it's come back down to roughly parity with the U.S., but that final increase from 85¢ to parity has not yet been felt. That's why we're very pessimistic, if the dollar stays anywhere near its current levels, about the impact on manufacturing employment, and again, similar impacts on other export-oriented industries in Canada.

It's kind of taken for granted these days that our loonie has become a petro-currency—in other words, that it is the run-up in world commodity prices, and in particular the run-up in the world oil price, that explains, and in some sense, justifies the rise of our dollar to such high levels. It is clear that there is a correlation between high oil prices and the level of our dollar, but I think it's worth the committee's while, and for all economists in Canada, to think through exactly how and why high world oil prices actually do impact on the value of our currency.

It is not felt via a traditional trade surplus effect. In older days, economists would have argued that the high global commodity prices, by making our resource exports more valuable, generate a trade surplus, and that's what drives up the value of our currency. In fact, the reverse has happened. Our trade surplus has declined quite dramatically. The most recent numbers, which came out yesterday, were very negative. So it's not being driven by a trade surplus.

In my analysis I've concluded that the main channel of causation between high oil prices and the high value of our dollar is actually felt through corporate financial channels. The very high revenues and profits earned by Canadian mineral companies have increased their market valuations on equity markets and attracted a lot of portfolio investment from other countries, and of course a lot of actual takeovers from other countries. So the tens of billions of dollars that have come into Canada to take over Canadian resource producers is the main factor that has driven up our dollar.

I think it's important for us to recognize those different channels of causation, because they will be relevant to any policy prescriptions that we might recommend in terms of ways to try to bring the dollar back down.

● (1540)

I do want to make reference in my testimony briefly to comments that were made last week by Mr. David Dodge, the Governor of the Bank of Canada. He was quoted in the newspapers and media as suggesting that the dollar in the high nineties, somewhere near parity with the U.S., was in some sense at an appropriate or justified level. I know Mr. Dodge is in the last weeks of his job. You should go easy on someone, I think, as they're getting ready to retire, and he's had a long and illustrious career in public service, so I don't begrudge him that. I take great exception to the statements that Mr. Dodge has made. I don't believe they're economically justified, and I believe they'll do great damage to our industry if in fact currency traders and financial traders take his words as a marker, if you like, and organize their trading activity around them.

The headline in *The Toronto Star* quoted Dodge's remarks and said, "Dollar about where it should be". And this direct quote that was reported in *The Globe and Mail* said:

> Now 98 cents sounds very specific. I don't intend it to be nearly that specific, but something in the mid- to upper-90s seemed to be pretty consistent with that.

Those were Mr. Dodge's words. In essence, he's explicitly indicating that the bank is somehow comfortable with an exchange rate that's very close to parity with the U.S.

I've heard this argument made informally from the bank before. I've never heard it so explicitly from the governor. I know where it comes from. They have an econometric model of the Canadian dollar that depends on a number of factors—global commodity prices, the Canada-U.S. interest rate spread, and a couple of other factors. They have been using that model for years to try to explain the value of the dollar. However, it's a very unstable model. The actual importance attached to oil prices in that model depends on what sample period you use to estimate the econometric regression. In fact, in earlier years the same Bank of Canada model found that the high oil prices would have a negative impact on the Canadian dollar, not a positive impact, and the precise level of the Canadian dollar that would prevail at any given time in that model depends on the sample period they have estimated it for.

As you roll that regression over time, the oil price seems to have become more important as a determinant of our dollar. But I don't think that correlation, which is indicated by that Bank of Canada model, in any way implies that the dollar in the high nineties is a logical or sustainable or natural equilibrium level whatsoever. I don't think the Bank of Canada's econometric model is convincing evidence of that.

In my view, the dollar has to come back down to the low eighties in U.S. dollar terms for Canadian industries, including manufacturing, to be at all sustainable in a global market setting. It is in the low eighties where some type of purchasing power parity condition will apply. In other words, the level of prices for consumer goods, or even production inputs in Canada, would then be comparable to those levels prevailing globally. Until the dollar comes back down to that level, which is much more consistent with traditional economic thought than with Mr. Dodge's suggestion that it should stay in the high nineties, Canadian industry will continue to shed jobs by the thousands.

Let me give you one concrete example of how that happens. The auto parts industry is one of Canada's most important manufacturing sectors, which is embedded in utter crisis at this point, with tens of thousands of jobs disappearing and dozens of plants facing closure. Average hourly wages in auto parts in Canada are about $25 an hour. In the U.S. they're about $21 an hour. That means anytime the dollar is above 84¢ U.S., our labour costs in Canada are more expensive than they are in the U.S., and that will exert a continuing downward pressure on production, employment, and investment in Canadian facilities.

The fact that we are paid $25 and the Americans are paid $21 doesn't mean that Canadian workers were greedy, or we somehow demanded too high wages. Over the years, the wages settled at $25 on the basis of Canadian labour market conditions, Canadian consumer prices, productivity levels in our plants, and so on. Now you've had a sudden change in the value of the dollar, which makes us look expensive, even though we're not, and that's destroying tens of thousands of jobs.

Some would say that Canadian plants have to respond to this by becoming more productive. We're all in favour of investment and innovation and productivity growth, but that will not solve the problem. Don't kid yourselves there. A company that develops a new and more productive technology still has the incentive to shift production to the United States anytime the currency is above the level that would equalize our wages.

● (1545)

That's just one example to justify why the dollar has to come back down to the low eighties if our manufacturing sector is to be sustainable at all.

Let me conclude by listing the three policy implications of my analysis of the high dollar.

First, part of the problem clearly rests with the Bank of Canada and its unduly narrow implementation of its inflation-fighting mandate. It does not explicitly take the exchange rate into account in its interest-rate decisions. Clearly, based on Mr. Dodge's remarks last week, the bank is unduly comfortable with an exchange rate in the high nineties, which is still fundamentally unsustainable for our export-oriented industries.

Secondly, I think the federal government has a role to play here in trying to slow down that inflow of foreign capital taking over Canadian resource companies, which in my view has contributed so much to the dollar's dramatic increase. I know there's a committee overlooking the possible reforms to the Investment Canada legislation. I think the imposition of a serious, meaningful, net-benefit test that has to be passed before any foreign takeovers are permitted would help in that regard.

Thirdly, to the extent that we have to live with the high dollar for a while—and I don't accept that in any inevitable way—the federal government and other levels of government have to move forcefully to help the manufacturing sector offset the impacts of that dollar through investment supports and other measures.

Thank you very much for your patience with me.

The Chair: Thank you very much, Mr. Stanford. Thank you for that presentation.

We will now go to Mr. Jackson.

● (1550)

Mr. Andrew Jackson (National Director, Social and Economic Policy, Canadian Labour Congress): Thank you, Chair.

I'm also going to speak to the dollar, mainly in relation to the manufacturing jobs crisis. I agree with everything that Jim said. I was going to touch on a number of similar points, so I'll try to talk around the points that Jim made rather than simply repeat what he said.

I agree with Jim, we've lost 100,000 jobs in manufacturing this year already on top of the 200,000 already lost. We're going to see at least that many jobs lost again, moving forward.

In terms of the role of the federal government, one thing we would call for is the establishment of a high-level task force on the future of manufacturing in Canada and how we deal with this crisis, with business, labour, and government representation on it. I do note that task forces have now been struck along those lines in both Ontario and Quebec. I notice Jim there is involved in that with Jayson Myers from the Canadian Manufacturers and Exporters.

We believe that we really need that strong concerted response at the federal government level as well. We think that task force should consider how to reverse the growth in our manufacturing trade deficit. Last year we had a deficit in the trade of manufactured goods of $30 billion, and that's mounting very strongly.

As Jim quite correctly said, what we're seeing as the result of the soaring dollar is quite a severe erosion of our balance of trade. Overall we're barely running a trade surplus now. As Jim says, the idea that the exchange rate appreciation is justified by an increase in manufacturing or trade surplus just doesn't link up with the facts.

We think we need a serious examination about how to increase productivity and value-added in Canadian manufacturing, including in the resource-based sectors, through government support for new investment in innovation, in machinery and equipment, and in workers' skills. I'll come back to that in terms of the role of tax incentives versus other ways to support new business investment, which we certainly strongly support.

Thirdly, we think governments, and by that I mean federal and provincial governments, could very concretely assist Canadian manufacturers at the moment through "buy Canadian" public procurement strategies, linked to new infrastructure investments and to environmental investments. We see real potential in twinning investment and environmental sustainability, meeting the climate change challenge, linked to green industrial strategies for Canada.

Again, I think the second key point beyond industrial policies, industrial development policies, is monetary policy. I think it's interesting that the Bank of Canada continually, in public, takes the position that their only mandate is to address inflation and ensure a low and stable inflation rate, and that they have no particular target level for the exchange rate in mind.

I'd just remind you that the mandate of the Bank of Canada, as set out in the preamble to the Bank of Canada Act, is to regulate credit and currency in the best interests of the economic life of the nation, to control and protect the external value of the national monetary unit, and to mitigate by its influence fluctuations in the general level of production trade prices and employment.

Now, we would certainly argue, given the huge impacts of the overvalued dollar on production and employment, that the bank's mandate does indeed extend to having a serious concern with an extremely overvalued exchange rate.

I don't need to remind this committee, given the fine work that you've done recently around the manufacturing sector and issues it's facing, of its central importance to our economy, even though this is shrugged off by many economic commentators.

The labour movement recently commissioned a major study from Informetrica Ltd., which I'd be glad to provide to you. It's on their website. Just by virtue of showing the linkages from manufacturing to the rest of the economy, they showed that if we had a $10 billion a year increase in manufacturing exports, which sounds like a big number, but it's just a 3.3% increase, that would generate 67,000 new manufacturing jobs, but on top of that we'd see an extra 48,500 spinoff jobs in the service sector. That's everything from financial services to other parts of the service sector.

● (1555)

From that stimulus to manufacturing, most of the positive job impacts, as one would expect, would be in Ontario and Quebec—about half in Ontario and a quarter in Quebec—but a quarter of those job gains would be felt in Atlantic Canada and western Canada.

As we are constantly told, Canada has to adjust to a changing global economy by shifting to production of goods and services that sell on world markets because they're innovative, high quality, or unique—and not just compete on the basis of cost. This demands investment in innovation, new machinery and equipment, and so on and so forth.

I guess the point I would make here, to reinforce what Jim was saying, is that the scale of the exchange rate appreciation compared with a realistic level in the low to mid-eighties range is so great that any tinkering around with the general corporate tax rate would have almost no significance for our weathering this crisis.

At the CLC we did support the accelerated depreciation measures that were recommended by this committee. It's imperative that industry adjust to this problem by investing, rather than going out of business. Certainly that measure should be continued. We would recommend turning it into an investment tax credit so that companies that are losing money will also be able to benefit from the measure.

But much more importantly, from looking at new manufacturing investments over the last number of years, we see that the measures that have been most effective are closely targeted measures, such as those in support of new auto industry investment. By contrast, if we were just to cut the general corporate tax rate across the board, much of that benefit would go to the already booming resource sector, in terms of even greater profitability, which would actually compound the problems of the rising dollar. And much of that benefit would go to the financial sector. As a share of total profits now, manufacturing profits are a relatively modest and falling share of the total, so if we were talking about targeted measures, I think further across-the-board tax cuts would not be the most desirable way to go.

I might add, just in terms of the new economy or the need for restructuring our economy towards more innovative areas, I absolutely agree with that. We should be aware that 55% of all research and development expenditure in Canada is within the manufacturing sector. Much of the high value-added parts of our service sector are very closely tied to that. So the idea that we can simply wave goodbye to manufacturing and weather this crisis somehow, and survive as a strong resource-based economy with a service sector just attached to it, I think is quite profoundly wrong.

As I've said, our manufacturing trade deficit has just exploded—and it's continuing to, and is really in jeopardy. You really have to address the question, how is Canada going to pay its way in the world if our manufacturing trade surplus and manufacturing exports continue to decline? We can only pay for something in the order of 20% of our imports through the exports of the energy sector.

As Jim has alluded, there's this widespread perception that Canada has a petro-currency. Our total energy exports are only equivalent to our auto industry exports. The oil sector is much less than that, or about 12%, if you take all oil products and refined oil products. So in many ways this is the tail wagging the dog of the whole economy. I think there's a misperception on the part of international investors about the extent to which the Canadian economy is truly driven by the resource sector, and a real underestimation of the importance of the manufacturing sector to our overall well-being.

Just to say a word about the interest rate issue, I think the conventional wisdom—and it's true to a degree—is that our dollar has been very strong because of the increase in resource prices and because of U.S. dollar weakness. With respect to the whole issue of U.S. dollar weakness, the fact of the matter is that we have appreciated much more against the U.S. dollar than any other currency; about one-third of the entire depreciation of the U.S. dollar in trade-weighted terms against the rest of the world has been borne by us. We're bearing a really unfair share of that U.S. dollar depreciation versus the rest of the world.

It's easier to talk about it than do anything about it, but the fact that the Asian currencies—the yen, and the Chinese currency—are so tightly linked to the U.S. dollar is just a huge, huge problem for us. The U.S. has not been gaining market share in Canada while their dollar has depreciated against ours. All of our domestic market share is going to Asia, not to the U.S. Meanwhile, our market share in the U.S. isn't going to U.S. manufacturers; it's going to Chinese exporters, Asian exporters, to the U.S.

● (1600)

We really, I think, face a very fundamental and disturbing balance in trade as between North America and Asia, which has to be addressed.

I sense I'm running out of time.

I'll just make the point that, as Jim has alluded, there is an important influence of interest rates on the value of the dollar. Compared to when we were at the mid-eighties level at the beginning of this year, we raised and then just now reversed Canadian interest rates. We raised by a quarter point. It looked like we were going higher. They changed track slightly last week. The U. S. has cut its interest rates by now one full percentage point. So compared to where we were with the 85¢ dollar, that interest rate difference has really converged.

We certainly think if we'd been matching those U.S. interest rate cuts as they were taking place, and certainly matched them moving forward, that would take some of the steam out of the dollar. Now we're going to still end up with it being uncomfortably high, but certainly monetary policy can and should make a real difference at the moment.

Thank you.

The Chair: Thank you very much, Mr. Jackson.

I want to thank both of you for those very substantive presentations. I also want to thank you for the work your organizations did in the manufacturing studies. It was very helpful in terms of the input that we had there.

We will go now to questions from members. The first round is six minutes for each member, and then the second round and succeeding rounds are five minutes for each member. So they have very little time for questions and comments.

We would just ask you to be as concise as possible in your answers. If the question is asked of one of you and the other one would like to respond, indicate that to me as well.

We'll start with Mr. Brison for six minutes.

Hon. Scott Brison (Kings—Hants, Lib.): Thanks, Mr. Chair.

I'll split my time with Mr. McTeague. I expect I'll have some extra time.

I'm going to focus on a couple of things. Some of the discussions we've had with those in the manufacturing sector and the auto parts sector indicate that the benefits, for instance, of the accelerated capital cost allowance currently offered by the government only helps, first, if you're making a profit in order to write off against your earned income, or secondly, if you can raise the capital. There's been some suggestion that we ought to make it a refundable accelerated capital cost allowance, which would benefit companies even when they're not profitable. But secondly, there's been a specific request from the auto parts sector for $200 million of loans from the federal government, and I believe they've made a similar request to the Ontario government because the banks simply will not lend to the auto parts sector right now to help them make these kinds of capital investments, given the challenges.

I'd appreciate your feedback on those two tax measures, and also what the impact would be of making the SR&ED program a refundable benefit as opposed to non-refundable.

Dr. Jim Stanford: Perhaps I'll start, Mr. Brison, on that.

On the point that the extended capital depreciation allowance is of limited value, it is of value and we also support it. It is of limited value, though, precisely for the factors you've mentioned. You have to be a profitable company to actually get value out of it. You have to be able to raise the financing to pay for the new investment. Also, the window of opportunity for that program, just being the two years, was a bit short, frankly. It takes companies a longer period of time to design and implement the investment program in order to take advantage of it.

I think the proposal from the auto parts makers for the loans or some other form of direct support reflects the fact that many companies are just not in a position to be able to take advantage of a CCA-style program because they're not making money in the first place, in which case the value of a tax measure like that is zero, and they can't raise the money for the new program.

My preferred approach for that would be a refundable investment tax credit, as Mr. Jackson mentioned. If the federal government, perhaps partnering with the Ontario and Quebec governments, would offer us, say, something like a 20% investment tax credit that was refundable when the new equipment was installed and focused on machinery and equipment to help, say, medium-sized companies adapt to a high-dollar environment, even companies that don't have a lot of money on hand right now can take the value of that credit, go to a capital-leasing company, and arrange to pay for equipment that can allow them to try to survive the current storm. I think that type of measure, focused on the machinery and equipment investment, more than on the research and development per se, would get the most bang for the buck.

● (1605)

The Chair: Mr. Jackson, do you want to comment on that?

Mr. Andrew Jackson: I agree.

The Chair: You agree? Okay.

Mr. Brison.

Hon. Scott Brison: I'll turn it over to Mr. Simard.

The Chair: You have about two and a half minutes.

Hon. Raymond Simard (Saint Boniface, Lib.): Perfect. Thank you very much, Mr. Chair.

Thank you very much for being here, gentlemen.

You spoke of 300,000 jobs already being lost, 100,000 in the last year alone, and the potential of 300,000 jobs being lost in the future. Could you give us an idea of whether.... Assuming the dollar stays where it is, are we talking over six months, a year, or three years for these next 300,000 jobs?

Dr. Jim Stanford: In my estimation, sir, it takes about two to three years for a change in the exchange rate to have a full impact on investment production and employment decisions in manufacturing. So the 300,000 and some—I think it's closer to 350,000 now—reflects the rise in the dollar from 2002 through to 2005 or 2006.

What we will see now is the impact of the last dramatic section of the appreciation, and we will feel that over the next two to three years as well. I would expect the 300,000 jobs to be lost gradually over that period.

Mr. Andrew Jackson: The one thing I would add to that is if you think back to 1989, when we also had a very high dollar in relation to the U.S. dollar and thus very significant job losses in manufacturing, we really had a very unfortunate coincidence of the free trade agreement coming in at the same time.

It took a period of time for those direct job losses in manufacturing to spill out into the rest of the economy as well. To this point, there's been some cushion in Canada. The housing construction sector has been quite strong.

But I think a lot of the cushioning against some of the indirect impacts of those direct job losses is going to come away. So it's not just a matter of more manufacturing job losses moving forward; I think we're going to feel more of the spinoff impacts from what's already happened.

Dr. Jim Stanford: I might also add that in other industries, not just manufacturing, the job toll is mounting as well. Hospitality and tourism, for example, have been very badly hit by the high dollar, particularly in border communities. So on top of those manufacturing job losses, you're looking at tens of thousands of lost jobs in other industries as well.

The Chair: You have about ten seconds. You'll have another spot, Mr. Simard.

Thank you.

We'll go to Monsieur Vincent.

[*Translation*]

Mr. Robert Vincent (Shefford, BQ): Thank you, Mr. Chairman.

Mr. Stanford, you stated in your presentation that the value of the dollar had risen by 60% since 2002.

Could the price of Canadian oil and other natural resources have contributed to the dramatic rise in the dollar's worth?

[*English*]

Dr. Jim Stanford: Clearly, there is a strong correlation between the record-high commodity prices we see globally and the rise of our dollar. Now, I say “correlation”, not necessarily “causation”. Energy prices, particularly, but also mineral prices for base metals, for example, are very important in the Canadian setting, given our large export-oriented mining industry.

I don't think there's any automatic reason why a country's currency should go up just because the price of a small portion of our exports should go up as well. This is where I think we can't take that link for granted; we have to think through exactly how it's happening. It isn't inevitable. I believe both the government and the central bank could take measures that would insulate our domestic economy against the unanticipated side effects of that unduly rapid appreciation.

From the federal government's point of view, I think that would involve limiting some of the takeovers and perhaps finding other ways to channel the resource rents generated by the energy and minerals industries into directions that wouldn't have such an impact on our dollar.

So while the two are correlated, I wouldn't take it as inevitable that high world commodity prices inevitably mean we have a high currency.

[*Translation*]

Mr. Robert Vincent: So then, job losses are not due solely to the rising dollar.

What other factors may be responsible for these job losses? Our strong dollar is not the only culprit in this case. You mentioned that 300,000 jobs have already been lost and that an additional 300,000 are threatened.

In your opinion, Mr. Stanford and Mr. Jackson, what other factors have contributed to these job losses?

● (1610)

[*English*]

Dr. Jim Stanford: You're quite right, sir; it would be wrong to blame the whole problem on the higher dollar. There are other challenges facing manufacturing.

I will point out that Quebec has borne a very large share of the job losses in manufacturing, proportionally among the worst in the country.

Other factors include trade deficits between Canada and Asia, especially China. Our trade deficit with China this year will approach $30 billion. They buy resources from us, but virtually nothing else, and other restructuring is going on in manufacturing, such as the special problems of the North American auto industry, but I will point out that those challenges were there before the dollar started rising. Those are not brand new challenges, so I think it's quite fair to say that the run-up in our currency has had a unique and predominant role in explaining those job losses.

Mr. Andrew Jackson: I think quite a big chunk of the problem has been specific to the forest industry which does face a fairly unique set of negative circumstances.

The other point I would make is that we went through quite a long period in Canada when our dollar was low. There were certainly good and bad aspects to it: we did see quite a lot of jobs being created in manufacturing after the recession of the early 1990s, but not a lot of investment in new machinery and equipment, innovation, and so on, so in a sense we did set ourselves up for a difficult problem as the dollar recovered to normal levels.

If you compare our manufacturing sector with those in other advanced industrial countries, ours has a very strong resource component, parts of which are here to stay, but we're much more dependent on the automotive sector than other countries are. As well, our machinery and equipment sectors—aerospace, pharmaceuticals, and so on—which should do well in the new global economy, are, despite their significance, relatively small.

The lesson I'd draw is that we really need some sectoral strategies to deal with this. Given the unique importance of our automotive industry, we badly need an automotive strategy in Canada around aerospace, because in terms of the structure of our economy it's really important that we build on those sources of strength that we have, rather than just watch them evaporate very quickly.

[*Translation*]

The Chair: You have one minute remaining, Mr. Vincent.

Mr. Robert Vincent: Mr. Stanford, do you think companies could stand to benefit from government loan guarantees?

[*English*]

Dr. Jim Stanford: I think loan guarantees are another possible tool that a government could use. They are preferable to the income tax mechanism, again, because companies that cannot claim the value of income tax deductions simply because they're not profitable would have access to a loan guarantee type of arrangement. I still prefer the investment tax credit because it's so directly tied to the purchase and installation of new machinery and equipment, but there is certainly a range of tools that would work.

Perhaps I'll just make one reference on the issue of a general corporate income tax cut, which the government has indicated was part of its response to the high dollar and the problems of manufacturing. Apart from the fact that a lot of manufacturers will get zero value from that income tax cut simply because they're not profitable in this environment, there's another potentially perverse outcome: most of the value of that income tax cut will be captured by the resource industries that have generated so many profits in this high-price environment, and remember that by my argument, it's their profits and their equity valuations and their appeal for foreign takeovers that are a big part of the problem behind the higher dollar—so I think that an across-the-board corporate income tax cut, including the resource sector, inadvertently could actually make the problem worse for manufacturers rather than better. If government wants to do something, they have to focus the measure on manufacturing.

The Chair: That's all the time we have for that discussion.

Thank you, Monsieur Vincent.

We'll move on to Mr. Carrie, please.

Mr. Colin Carrie (Oshawa, CPC): Thank you very much, Mr. Chair, and I want to thank the guests for being here.

It's a particularly important topic for me as the member of Parliament for Oshawa. We recently had a layoff at our truck plant; there were 1,200 job losses. It's disheartening, because I see the numbers in Canada, and it appears Canadians are buying more trucks: truck sales were up 14% last year, and I see in the new numbers that Chrysler sales are up in Canada this year.

To what extent are these 300,000 job losses due to the fact that much of our exports in this country go to the United States, where we're seeing an American economy that's really being challenged right now? Are our sales directly being affected by the U.S?

● (1615)

Dr. Jim Stanford: Certainly part of our current weakness over the last few months is related to the slowdown in the U.S. economy—the uncertainty surrounding the financial problems there with sub-prime mortgages, and so on. That was relevant in the case you mentioned of the Oshawa pickup truck facility. But the problem we're facing in manufacturing goes back much further than that.

Our manufacturing employment has been falling continuously for over five years, and for periods in that time the U.S. economy was very strong. The main problem with our exports to the U.S. is not this short-term downturn in the U.S. economy. The main problem we face is that our automotive exports to the U.S. are being squeezed out by offshore imports from Japan, Korea, and other offshore producers. That has been by far the more important factor behind our shrinking exports to the U.S. market, and the dollar of course only compounds the problem.

Mr. Colin Carrie: You also mentioned countries such as China, where we have a huge trade deficit, and I was wondering if you could comment. I've talked to manufacturers about unfair international agreements. One that was mentioned to me was Kyoto, for example.

Certain countries like China and Korea are seen as being third world countries, so their manufacturers don't have the same environmental challenges that ours do here. In other words, we can sign agreements to say we're going to improve our environment, but if these other countries that are big emitters don't get on board, how is that going to affect our manufacturing sectors here in North America, particularly in Canada? These other countries aren't going to play by the same rules that we're playing by.

Dr. Jim Stanford: I don't think the Kyoto process has had any negative impact on our manufacturing at all. China is part of the process. They don't take targets until the second round of the Kyoto process, but there are many reasons why we have an unfair trade relationship with China. It's all about their low labour costs, their suppression of trade unions, and the ability of global companies to invest there and export to here without buying anything back. That is the source of our problem, not China and Kyoto, frankly.

I think the Kyoto process and the broader effort to address climate change could be an opportunity for Canadian manufacturing, if we provide the resources to the sector that are required to adopt cleaner technologies.

Mr. Colin Carrie: That goes against what I've actually heard from manufacturers. I talked to one manufacturer here who was really discouraged because he sold technology to Korea, which will be receiving credits, and they were a direct competitor to him here. So he had extra costs but was a direct competitor with Korea. They were able to send the goods back over here at a lower cost. I appreciate your opinion on that, but that's not what I'm hearing directly from manufacturers.

Mr. Andrew Jackson: It's not as if we've imposed any costs anywhere. I think there's some validity in looking at that as a concern moving forward. On what the CLC has said around the climate change issue, as far as setting emission targets for large final emitters, and so on, there should be some consideration given to competitive factors in terms of the costs.

For example, if we're building a new refinery in Saint John, New Brunswick, and the U.S. doesn't match the cost of carbon that goes in, that kind of investment would go south of the border. But I think that speaks to the importance of bringing the U.S. into the Kyoto process as well.

Mr. Colin Carrie: I think it's important to bring all huge emitters into an environmental process, that's for sure.

You mentioned a low dollar and that we'd have to have it in the eighties to be competitive in the long term. Is that realistic? How would you go about doing that? Would you consider pegging the Canadian dollar? We're hearing that it has a lot to do with what the American economy is going through right now, not necessarily Canada's. It has gone up to a certain level, but the American economy and the American dollar are really dropping. How realistic is it for us to have this low-eighties dollar?

● (1620)

Dr. Jim Stanford: Let me address the question of whether the Canadian dollar is rising or the U.S. dollar is falling. I think there are a lot of inaccuracies in the general discourse on that subject.

The U.S. dollar is falling globally. If you measure the value of the U.S. currency against the trade-weighted index of the major countries it trades with, and you weight each of its trading partners according to its importance in that bilateral trade, the U.S. dollar has fallen by about 20% over the last four years. The Canadian dollar has risen against the U.S. dollar by 60% during that same time period. That's a three-to-one ratio. In other words, our dollar has risen three times as much as the U.S. dollar has fallen. You could say that one-third of the problem is that the U.S. dollar is weak, but two-thirds of the problem is the uniquely Canadian problem that our currency is strong because of this overheated resource sector and the indirect links onto our currency.

In terms of how you would actually bring the dollar back to the low eighties, I think it's quite sensible. The most common benchmark that economists use to evaluate the fair value of a currency is what's called “purchasing power parity”; that is, a currency should be at a level so that a given amount of money can buy as much in one country as it does in another country, after adjusting for price levels and exchange rates. That purchasing power parity level is in the low eighties. It's around 83¢ to 84¢. I think it's a question of our dollar being driven away from that value by the pressures in financial markets.

I'm sorry for going on so long.

The Chair: Thank you, Mr. Stanford.

Thank you, Mr. Carrie.

I want to indicate to members, and to the witnesses as well, that the bells are ringing. I'm attempting to find out exactly what time the vote is. I don't know if it's a closure motion or not.

But we will continue. We'll go to Ms. Nash, for six minutes.

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

Welcome to the witnesses.

I'd like to use my time to explore the relationship between the job losses in the manufacturing sector and growing poverty in Canada.

I'm from the city of Toronto. We had a recent United Way report that talked about how poverty is dramatically on the rise. We've lost about 125,000 manufacturing jobs in our city. We hear from some quarters that while there are job losses in the manufacturing sector, it is being offset by growth in other sectors.

I'd like to ask the witnesses about the impact of the loss of manufacturing jobs, the growth of poverty, and your views on whether the growth of the service sector is going to help reduce poverty in Canada.

Dr. Jim Stanford: Perhaps I'll go first, since Ms. Nash is my MP, and my former colleague at CAW. It's lovely to be able to engage in this discussion with you, Peggy.

In terms of manufacturing job losses being offset by service job creation, I think we are very fortunate in that the decline in manufacturing in the last few years has been at a time when the spending conditions in the domestic economy, such as retail, construction, and public services, have been very strong. That has allowed us to endure the decline in manufacturing without experiencing an overall recession, which is what happened the last time our manufacturing sector went into crisis in the early 1990s. We've been very fortunate on that scale.

However, it would be very wrong to conclude that manufacturing doesn't matter or that jobs lost here will inevitably be picked up somewhere else. I do not expect that to continue. Manufacturing is still very important to the base of our economy. It is an export-oriented tradeable good. As Andrew said, we have to be able to produce those things to pay our way in global markets.

The quality of jobs that are offered in manufacturing are superior in terms of the productivity. Income levels are more than 20% higher than average levels. It is the kind of job where working-class people can earn a middle-class income for themselves and their family.

The loss of those jobs, even if they're made up for with service sector employment, which in the private sector tends to be inferior in terms of income, will still contribute, as you mentioned, to the rise of poverty in our communities.

● (1625)

Mr. Andrew Jackson: The one thought I'd add, if I could, is that I was pretty struck by that recent United Way report. It's striking how large a proportion of the job losses in Ontario are in the greater Toronto area. Actually, I think there is something in the area of 100,000 jobs now in manufacturing that have been lost in the GTA.

One thing that often gets lost sight of is that a lot of those jobs have been held by relatively recent immigrants. About 25% of recent immigrants are employed in the manufacturing sector, compared to about 15% of the rest of the public. These aren't necessarily great jobs. They're not necessarily auto industry jobs. But for many recent immigrants they are a kind of foothold in the job market compared to the other kinds of employment opportunities available in Toronto as described in that report. They at least tend to be full-time and so on.

In many ways the human face of what's going on is being lost, and we need to bring that much more to the front in terms of specific groups being impacted.

Ms. Peggy Nash: Can you also give your view on the relationship between the manufacturing sector and the service sector? One of you mentioned that 55% of research and development is done in the manufacturing sector. I'd like your opinion on the relationship with the overall service sector. For example, when we say “service sector”, we often think immediately of food and beverage or the hospitality sector. But we are doing another study on the service sector. It's much broader than that. There are all kinds of higher-skilled jobs in the service sector—telecommunications, computer software, engineering jobs, for example.

What's your view of the dependency of some of those higher-skill jobs, especially, on the manufacturing base of the country?

Dr. Jim Stanford: Perhaps Andrew can take the first kick on that one. I've been getting more than my share here, I think.

Mr. Andrew Jackson: I'll just take one very concrete example that struck me recently. I guess it was the latest report in *Report on Business Magazine*, looking at the forest industry and comparing the forest industry in Canada to that of Finland, where there's a very large research and development component. They've really developed quite a thriving biotechnology sector on the basis of the primary forest industry. So certainly, in terms of this argument about adding more value to our resources, sort of leveraging off important industries, in Finland they have a very strong sector that builds forestry machinery and equipment for export to other countries. They are building pulp and paper plants around the world. That's a service sector providing specialized engineering services.

The argument would be that you need the production base to lever a lot of that high-value service spinoff out of it.

There is a level where we discount the importance of manufacturing by just taking it as a percentage of the labour force, where it clearly has been falling, and part of that is from higher productivity growth. But partly it's just that the manufacturing sector has outsourced to other firms a lot of functions that used to take place, everything from cleaning to specialized payroll services. We count quite a lot in services now that used to be included within the manufacturing sector itself.

The Chair: Thank you, Ms. Nash.

Members, I'm being sent e-mails saying we're supposed to proceed to the House immediately for a vote. I understand there is a vote at 4:50. I'm terribly sorry about this. It's an excellent discussion, and there are a lot of members up for questions. But as the chair I have to say when the House beckons, we have to go.

There is an option. We have votes at 5:30 as well; we have six votes. So we're fairly limited in what we can do.

Mr. Andrew Jackson: I appreciate that. I'm happy to have had a hearing.

The Chair: If members request it, we'd certainly ask you to come back, and if there's anything further you want to submit, please feel free to do so to me or to the clerk.

Thank you very much for coming in. I certainly apologize for the short time, though.

Thank you

● (1630)

Dr. Jim Stanford: Thank you very much, Mr. Chair.

The Chair: The meeting is adjourned.

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