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Chair

Mr. James Rajotte

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• (1535)

[English]

The Chair (Mr. James Rajotte (Edmonton—Leduc, CPC)): Members, I welcome you to the 15th meeting of the Standing Committee on Industry, Science and Technology. This is continuing our study, pursuant to Standing Order 108(2), of the impact of the appreciating value of the Canadian dollar on the Canadian economy.

We have two panels before us today, for an hour each. We have very special guests here for the first panel; we have witnesses from the Bank of Canada. First of all, we have Mr. Paul Jenkins, senior deputy governor. Secondly, we have Mr. John Murray, a deputy governor.

Gentlemen, welcome. You have up to ten minutes for your opening statement. Then we'll go right to questions from members for one or two rounds.

Mr. Jenkins, I believe you'll be starting.

Mr. Paul Jenkins (Senior Deputy Governor, Bank of Canada): Thank you very much, Mr. Chairman.

We are pleased to be here with you today. We hope we will be able to help your committee as it examines the impact of exchange rate movements on the Canadian economy. As you noted, with me is John Murray, who has recently been appointed as a deputy governor and also a member of the bank's governing council.

To begin, as background I would like to quickly review the framework within which we conduct monetary policy in Canada. The Bank of Canada Act calls for us to mitigate fluctuations in the general level of production, trade, prices, and employment so far as may be possible within the scope of monetary action, and generally to promote the economic and financial welfare of Canada.

Over time we have learned that the best way to fulfill this mandate is to keep inflation low, stable, and predictable. Specifically that means we aim to keep the annual rate of inflation as measured by the consumer price index at 2%. To keep inflation on track, we aim for a balance between total demand and total supply in the Canadian economy. By maintaining low and stable inflation, our monetary policy helps to keep the economy operating at full capacity and promotes greater stability in economic output.

Let me also stress that a stable economy operating at full capacity also has the additional crucial benefit of helping the economy to adjust to changing circumstances.

What does all this have to do with the exchange rate? Well, the exchange rate of the Canadian dollar is a key element of our

monetary policy framework. Without a floating exchange rate, we would not have the ability to conduct an independent monetary policy appropriate to our domestic situation. This means that we do not have a target for the Canadian dollar, but the exchange rate is an important relative price in our economy, and we pay very close attention to it and to its movements.

Movements in the exchange rate influence the level of imports and exports, which can help to keep total demand and supply in balance and have a direct influence on price levels in our economy. Further, exchange rate movements act as a signal, if you like, to shift resources into sectors where demand is strongest. Our floating exchange rate helps to facilitate this process.

That said, we recognize that these types of adjustments can be and indeed have been difficult for some sectors, regions, and communities.

[Translation]

When the Canadian dollar rises or falls, we try to determine the degree to which those movements are due to changes in world demand for our goods and services, and how much is due to other, unrelated factors. It is important that we understand the causes of exchange rate movements, because the implications for the economy — and the appropriate monetary policy response — depend on the reasons for the change. We must then incorporate this information with our assessments of our monetary policy that works to keep total demand and supply in balance.

Exchange rate movements can also be, as we have seen recently, quite volatile. That has sometimes led to calls, for example, for Canada to fix its currency to the US dollar. That would be a mistake. The United States are certainly our closest neighbour and by far our largest trading partner. But the structures of our two economies are very different. This means that each of us often requires different adjustments and different policies in reaction to shocks. Canada's floating exchange rate helps in this process by acting as a shock absorber.

[English]

Mr. Chairman, we cannot avoid adjustment. The question is, how can we best adjust to changing global and domestic economic forces? With a fixed exchange rate, the adjustments would have to come through movements in overall output and in all wages and prices. History has shown that those adjustments are more protracted and more difficult when the nominal exchange rate is not allowed to move. Again, however, I stress that this does not mean that the Bank of Canada is indifferent to movements in the exchange rate.

Let me conclude with a few summary comments on our latest monetary policy report update, released last week. I believe copies have been made available to committee members. In this report we said the Canadian economy continues to operate above its production capacity despite some slowing in growth in the fourth quarter of 2007. The bank projects that economic growth in 2008 will be weaker than was expected in our report last October, averaging a little over 1% in the first half of this year and a little over 2% in the second half. On an annual average basis, the economy is projected to expand by 1.8% this year, in 2008, and 2.8% in 2009. Both core and total CPI inflation are projected to fall below 1.5% by the middle of this year before returning to 2% by the end of 2009.

On December 4 and again on January 22, the bank lowered its target for the overnight rate by one-quarter of one percentage point, bringing it to 4%. We also said in our report, in line with the bank's outlook, that further monetary stimulus is likely to be required in the near term to keep aggregate demand and supply in balance, and to return inflation to target over the medium term.

With that, Mr. Chairman, John and I would now be happy to take your questions.

Thank you.

● (1540)

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

The first round will be for six minutes. We will begin with Mr. Simard.

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

The disadvantage of being first is that you don't get the benefit of hearing everybody else's comments, and this was a very short presentation.

I do have a few questions, though. One of them is with regard to the different sectors and the adjustment periods, for instance, for the manufacturing sector and the service sector. We've been hearing about manufacturing sector woes for a little while now, and we've realized that over the last 10 or 12 years they've had some pretty good economic times. They haven't necessarily made the adjustment for the possibility of an increase in the dollar. I wonder if you can tell me, and I'm not sure, maybe this is an opinion, where are we in terms of the adaptation? Are we half-way through? Are our companies adapting? Are they not taking this seriously, or are they moving towards a full adjustment to the dollar at par?

Mr. Paul Jenkins: That's a very good question. I'll apologize because I know we don't have a great deal of time, but I think this really is a very important issue you've raised.

Let me start off by saying, first of all, that what we have seen in terms of the adjustment taking place in the Canadian economy has actually been further along than we might have expected, based on history. If you go back to the seventies and eighties, for example, we were not very good at adapting to changing circumstances. When you look at what has happened in the Canadian economy more recently, we've actually been pleased with the adjustment that has taken place. That's not to say the adjustment hasn't been difficult, but

adjustment has been taking place. Certainly, based on the information that we gather through our regional offices—we produce four times a year what we call a business outlook survey and we actually go out and talk to businesses and we ask them how they are progressing—the evidence is encouraging. Can I say whether we're half-way through it or three-quarters of the way through it? That's harder to say, but all the evidence would suggest that this adjustment is taking place, as difficult as it is in certain sectors.

I think it points to a broader issue you've touched on, and that broader issue is the importance of continuing to move in the direction of increase in the degree of flexibility in the Canadian economy. With respect to the types of shocks that we've been experiencing—you talked about the last 10 or 15 years—if you go back and you trace through those shocks, going back to the Asian crises and the Latin American crises and the debt problems in Russia, the collapse of the high-tech bubble, SARS, and more recently the emergence of countries like China and India—these two countries alone account for 40% of the world population—these aren't going to go away. We need to continue to work very hard at continuing to improve the flexibility so we can make sure that adjustment is quick and as painless as possible.

Hon. Raymond Simard: I'm actually surprised to hear that you do consult companies to see where they are. I didn't think you used that kind of tool.

Another question was on what tools you utilize prior to making interest rate decisions. That's one of them, obviously.

I'd also like to touch on the sub-prime mortgage crisis in the States, again in terms of where you think it is along its path. We've had substantial writeoffs by some of the biggest banks in the world. Again, are we 50% through, are we 75% through? I know it's a tough call, but it's important for us to know that. I have an investment portfolio, and I'd like to know if I should be investing or not.

Mr. Paul Jenkins: As a central bank, we try not to give personal advice.

Hon. Raymond Simard: And how low are you prepared to go in terms of reducing your interest rates?

● (1545)

Mr. Paul Jenkins: Well, that's another tough question. But again, that's another very good question. It is difficult to say how far along we are in that process. Let me cut into it in one particular way and see if this is helpful. Then I'll ask John to pitch in, because he spends a lot of his time thinking about the global situation, including, of course, the United States.

We obviously, in thinking about Canadian monetary policy, have to pay a great deal of attention to what goes on outside Canada, whether it's in the United States, China, India. In the case of the United States, as I noted in my opening remarks, it remains our major trading partner, but the structures of our economies are different.

Clearly, we see a very direct impact on the Canadian economy as a result of the sub-prime mortgage situation. It comes, in the first instance, through the decline in residential construction, and therefore the demand for lumber, doors, windows. You can go through the list of products that we export.

When we put together our view for the Canadian economy, which influences directly our decision-making process, we have to have a view of the United States. In our monetary policy report of last week, which you have a copy of, we've actually adjusted down, quite significantly, the U.S. outlook. We have growth in the United States in the first half of this year of only 0.5% at an annual rate. We do see it picking up in the second half of the year. Behind that, we have a further significant decline in residential construction this year in the United States, and we see some further decline next year. So we still have some way to go.

Then the other leg to this, of course, is the financial leg and the implications of this for losses, the writeoff in recognition of those losses, and the recapitalization of bank balance sheets.

John, do you wish to add a few comments?

The Chair: Mr. Murray, be very brief, if you can. We're over time here.

Mr. Paul Jenkins: I do apologize. We'll shorten our replies.

The Chair: Just very briefly, Mr. Murray.

Mr. John Murray (Deputy Governor, Bank of Canada): I'll be very brief.

Just to add a footnote to what Paul said, we don't expect the situation in the U.S. housing sector to normalize until the latter part of 2009. That's not to say, though, that we don't see the U.S. economy beginning to turn through 2008 because of the strength in other sectors. The two weakest quarters, we think, are in the front half of the year, after which we see it beginning to grow based on strength elsewhere.

The Chair: Thank you, Mr. Simard.

We'll go now to Madame Brunelle.

[Translation]

Ms. Paule Brunelle (Trois-Rivières, BQ): Welcome, Gentlemen. It is a pleasure to have you with us.

Over the last few months, there was a lot of talk about the high dollar, its fluctuations, obviously, high energy prices and the impacts of that on the manufacturing sector.

In your crystal ball, do you see many more job losses in the manufacturing sector? Is it true that the high price of energy boosts the dollar, as people say?

Mr. Paul Jenkins: Obviously, the prices of energy products and other commodities are high due to global demand, especially from emerging countries.

In our monetary policy update, we use future contracts to estimate energy prices, which reflect the market consensus. Roughly, the price of energy in future contracts is around \$90 a barrel, which is pretty high.

As I already said, the adjustment in the various sectors is not complete. In my view, more adjustments will take place in the manufacturing sector, which means that there will also be further adjustments in other sectors, especially those where demand is very high, such as the natural resources sector and the residential

construction sector. So, adjustments between various sectors will continue.

• (1550)

Ms. Paule Brunelle: So you are saying there could be more job losses. We just do not know.

In your presentation, you said that the Canadian economy is still going to grow. There is talk of a recession in the United States.

According to your presentation, this will not happen in Canada. Is my understanding correct?

Mr. Paul Jenkins: According to our base scenario, there is no recession in the States. As John mentioned, in the first semester of this year, there will be very slow growth, at an annualized rate of close to 0.5 percent, but not a recession. This growth rate will have an effect on the Canadian economy.

As I mentioned in my presentation, the Canadian economy is projected to grow in the first semester, but in our base scenario there is no American recession.

Ms. Paule Brunelle: Many experts have announced this recession in the United States. Is your projection due to the recent statements of President Bush who tried to reassure the markets.

Mr. Paul Jenkins: It is difficult to comment on other countries' policies. According to our base scenario, the turnaround in the US economy in the second semester of this year will come as a result of US monetary policy. There are also tax incentives that will contribute to this turnaround.

Ms. Paule Brunelle: Do I have some time left?

The Chair: You have two minutes left.

Ms. Paule Brunelle: I would like to raise another subject. In your presentation, you mentioned that due to the volatility of the dollar, people have called for the Canadian dollar to be pegged to the US dollar, but that this would be a mistake. Have you considered a common currency? It seems to me that this has been a success in Europe, with the euro. Is a common currency for the Americas, or at least for North America, still being seriously considered?

Mr. Paul Jenkins: This is a vast subject. I would like to emphasize that the structure of the US economy is very different from that of the Canadian economy. For example, a shock on commodity prices, on natural resource prices, is a positive shock for Canada and an improvement in our terms of trade, but for the US economy, it is a negative shock.

It was the same thing after the Asian crisis: the impacts on our two countries were different. It is therefore important to be able to manage our economy according to the shocks felt, which are different. A fixed exchange rate within a common currency would mean that Canada's monetary policy would have to be the same as America's monetary policy. That is a fact.

The Chair: Thank you.

Mr. Paul Jenkins: It is the floating exchange rate that allows us to manage the Canadian economy according to our domestic situation.

[English]

The Chair: Merci, Madame Brunelle.

We'll go now to Mr. Stanton.

Mr. Bruce Stanton (Simcoe North, CPC): Thank you, Mr. Chairman.

Welcome to our witnesses. It's great to hear an economic perspective from the highest order, I would say. It's very good.

There's one specific reference you made in your opening comments that I wanted to ask you about. In the closing line, you said that in line with the bank's outlook, further monetary stimulus is likely required in the near term. Could you give us some examples of what you mean by monetary stimulus? Can you give some examples of what that would be?

Mr. Paul Jenkins: To be quite direct, it would mean further declines in our policy interest rate. When we talk about monetary stimulus from that perspective, that's what we mean.

• (1555)

Mr. Bruce Stanton: If you were projecting ahead, that would mean that the outlook for the months ahead will see perhaps some downside for us.

Mr. Paul Jenkins: Exactly. The projection we present, as I noted earlier, with that weakness in the first half of the year we did lower our policy rate on December 4 and again on January 22, and what we're indicating here is the likely need for further monetary stimulus, which is the phrase we use, but it is our policy interest rate we're talking about.

Mr. Bruce Stanton: Back in the fall the Government of Canada released its fall economic statement that created, among other things, tax reductions and easing up, more or less, on the tax burden of Canadians. I wonder if you would have any comments on how those kinds of macro fiscal policies impact on things like the dollar and Canada's overall resilience when it's faced with these kinds of adjustments that in many cases are outside of the realm of our ability to control things like our exchange rate relative to the U.S.

Mr. Paul Jenkins: When we think about what I'll call fiscal policy, to look at it in the broader context, when we put together our projections for the Canadian economy, we basically take as given what we know about fiscal policy that has been announced either by the federal government or the provinces. We need to factor that into our thinking. So we don't have a judgment as to what fiscal policy should do in a particular way. Our job is very much at the macro level to try to include that in how we see everything else at play affecting the Canadian economy. That is very much how we approach it.

Mr. Bruce Stanton: More or less, you assess it based on what's been announced.

Mr. Paul Jenkins: That's it exactly.

Mr. Bruce Stanton: Over the last several sessions, both on this topic and on others, as you can imagine, this committee has been paying close attention and watching some of the issues around job losses, as has been mentioned by other members. Certainly no one ever wants to see shrinkage in job rates here in Canada. Although the national rate of employment is as high as it has been for several decades, nevertheless there are pockets where there is some shifting going on.

We heard yesterday one of the witnesses who talked in terms of while there have been some losses, for example, in traditional

industry like manufacturing, there have been gains on the other side with the service sector, and some of these newer jobs are in fact shifting to higher-paid, higher-quality jobs. Are these kinds of adjustment the normal thing to expect, given what Canada is faced with in the global economic framework?

Mr. Paul Jenkins: "Normal" is a difficult word to comment on.

What we're facing here in Canada is a series—I apologize for using a technical term—of relative price shocks. The best example of that is the increase in commodity prices. The issue really is how do we best adapt to these relative price shocks, these changes in the reality of the global economy that we're facing.

If you go back to the period around the Asian crisis in 1996-97, the world economy was very weak. Commodity prices were very low, and that was when our dollar dropped down. What we saw through that period was a major shift of resources, including employment into the manufacturing sector. We went through a period where manufacturing employment and production grew very rapidly. This is a bit of a generalization, but what we are going through now is the reverse of that. We've had a very strong global economy, high commodity prices, and our dollar has moved up in response to that. What we're seeing is a shift in resources now, including employment, into the resource sector, but we also have a very strong domestic economy—construction, services.

Your point is absolutely correct. When you look at the aggregate numbers in terms of employment, we've seen sustained high levels of employment, but we've had this difficult adjustment we've been going through. That's why I was emphasizing earlier, in my view, the absolute importance for all governments in this country to continue to work together and independently as required to continue to promote policies that facilitate flexibility and adaptability. These types of shocks aren't going to go away. It's the reality of what we have to face.

• (1600)

The Chair: Thank you, Mr. Stanton.

We'll go to Ms. Nash, please.

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

Welcome to the guests.

I would like to ask you about the rate of the dollar. I think you might have addressed this, but maybe you can clarify it for me. Does the Bank of Canada have a target it sets the dollar at, a target rate it pegs the dollar at? Is there a rate you would like the dollar to be situated at?

Mr. Paul Jenkins: No. We have a target for the rate of inflation, but we do not have a target for the exchange rate.

Ms. Peggy Nash: Finance Minister Flaherty is quoted today in the paper as saying that the Bank of Canada has targeted a range of 95¢ to 98¢ or so for the dollar and that this remains the target of the Bank of Canada, which he supports. What do you think he could have meant by that, or where do you think the confusion comes from? Or was he just wrong?

Mr. Paul Jenkins: I certainly can't comment on the reported comments of the minister.

What we say in our policy report is that when you look at all the factors that have been influencing the Canadian economy, an exchange rate of around 98¢ is not inconsistent, in our view, with the fundamental factors at play. And indeed, when we put together our projection, which of course looks out through 2008 and 2009—

Ms. Peggy Nash: What would be your modelling for the...?

Mr. Paul Jenkins: We have to make certain assumptions about key prices, if you like, that go into this projection. As I noted earlier, in the case of energy prices we use the futures curve, which is the market's best view at any point in time. But that is an assumption. Given that assumption, we say this is the impact it will have on the consumer price index. Likewise, with the dollar, we make an assumption so that we can complete a coherent projection, if you like. In this monetary policy report update, which is an update to our projection, we assume a 98¢ exchange rate for the Canadian dollar.

I really can't comment beyond that.

Ms. Peggy Nash: Okay, so that's maybe where he got that impression.

When you do this projection.... I just want to confirm your view as to why the dollar is projected to be so high. We've heard it's the U.S. economy and the reduction of the American dollar, but I note that the Canadian dollar seems to have gone up relatively more quickly than other currencies vis-à-vis the U.S. dollar.

So is it strictly the oil and gas sector and the commodity prices that are having that extra impact here in Canada?

Mr. Paul Jenkins: In fact the Canadian dollar has not been the only currency that has moved up. We actually have some charts that perhaps my colleagues can circulate.

Ms. Peggy Nash: Other currencies have had the rate of increase of the Canadian dollar?

Mr. Paul Jenkins: Absolutely. The Australian dollar, the euro—all these currencies have moved up against the U.S. dollar more or less in a similar way to the Canadian dollar. You get variations, but by and large you'll see that from this chart. John can talk to that later.

I know time is short, Mr. Chairman, but I think this is an important point, so perhaps you'll let me talk a bit more about it.

As I noted earlier, we've been going through a very prolonged period of very strong global economic growth. We've had five years of rates of growth globally over 5%, almost unprecedented since World War II. With that, we've had this increase in commodity prices. When you look at movements in our exchange rate, one can't be precise, but a movement up to the low 90¢ range to around parity would not be inconsistent with the increase in our terms of trade, or commodity prices more generally. But there's a wide confidence band around that.

So we pay very close attention to the exchange rate relative to what we think makes sense. We think through very carefully the implications of the exchange rate and its movements for the Canadian economy.

To go back to your point, it's a very important price in the Canadian economy. It's something we pay very close attention to, particularly if it were to move outside a range that we would think is

consistent with these historical relationships. That would be something we would clearly factor into our policy thinking.

•(1605)

Ms. Peggy Nash: Do I have any more time, Mr. Chair?

Mr. Paul Jenkins: I apologize, Mr. Chair. All these answers are long.

The Chair: You have about 40 seconds.

Ms. Peggy Nash: Can you, in finishing up on this line of discussion, just talk about the impact of commodity prices? Surely that is one of the key factors. You've mentioned it. I guess the concern is that if commodity prices are a key factor in driving up the dollar, what is the relationship between that and other sectors of the economy, like tourism, manufacturing, or other aspects? Could you just say a few words on that?

Mr. Paul Jenkins: It is a complicated story, and if I try to cut through it and simplify it.... In Canada we have seen this big increase in what we call our terms of trade. This is because the products we're selling internationally are being sold at a high price, and that has generated a lot of income for the Canadian economy. That's why, in part, the domestic side of our economy has been doing so well: because we've actually been generating a lot of income for Canada through the sale of these products in the international market. So you see that income growth through this increase in our terms of trade having an impact across the economy.

The exchange rate movement reflects these increases in prices of the products we sell internationally, just as it was the reverse after the Asian crisis.

I apologize again.

The Chair: Thank you.

We'll go to Mr. Eyking.

Hon. Mark Eyking (Sydney—Victoria, Lib.): Thank you, Mr. Chair, and I thank the guests for coming here today. It's a good time to be talking about the situation we're in right now.

You people alluded to the flow of money around the world and how it flows between countries and institutions more so than ever before. Recently there was an article in *The Economist* about following the money, about where all this money is coming from. They said that in one minute the money that a peasant farmer is saving in China could be loaned to somebody borrowing to get a Starbucks coffee. It might be that for the first time in the world poor people are lending to rich people. But anyway, when you follow the money and when they talk about over half a trillion dollars being lost in the United States, somebody is losing the money. Whoever had to lend them a dollar loses a dollar. The saver or somebody who lends a dollar is going to lose a dollar.

When you go back to thinking how Canada is going to shake out in this whole scenario when the merry-go-round stops, would you have any projections or rough estimates of how much Canadians—people who save or Canadian taxpayers—might end up footing for this bill by the time it's done?

Mr. Paul Jenkins: I'm going to ask John to address this, because there is a real global dimension here, but I'll just say by way of introduction that Canada is running a current account surplus again because of the high prices of the products we sell. So globally, we're a net saver from that point of view. I think one of the lessons we learned through the seventies and eighties is the importance of continuing to be very prudent in terms of the amount of debt we take on as a country, regardless of sector.

John, do you want to talk a little bit about the global dimension here in these flows?

Mr. John Murray: Sure. I'll be brief.

There is a vast amount of money circulating through the world economy, of course, and right now, unfortunately, we happen to be going through a very challenging time. There have been some losses, but you wouldn't want to leave with the sense that everyone's losing money and of necessity the taxpayer or governments are going to wind up picking up the pieces.

Just to put things in context, we start from a very strong position. Our banks have been very well capitalized. Our firms have on average been very profitable, although obviously there are some sectoral differences. And households, especially in Canada, are in good shape. Our housing situation and our housing prices, of course, have been quite different from those in the United States.

Equity prices, while down very recently, are about flat year on year, and if you take a five-year period—these figures just happen to stick in my mind—Canadian equity is up 80%. So there is net wealth to draw on and a fairly strong starting point.

I don't know if this, in part, answers your question.

• (1610)

Hon. Mark Eyking: Even though we're well off, we're still going to lose. I know we're in a better position, but if you're a household, and you have savings of \$50,000, and you have some shares in the Bank of Montreal, or whatever, and you're a Canadian taxpayer, somehow you're losing money if it goes across the border to help bail them out. That's my question. How much is going to go, roughly, out of Canadian hands? Even though we might be more liquid, we might be better off, that's not the point. The point is how much is it going to cost the Canadian public? Is there a rough estimate?

Mr. John Murray: I'm not sure I follow the question exactly, so I hesitate to give an answer, but one point that might be worth making is that there are difficult as well as very positive periods, and you rely on some diversification to get you through. One of the advantages of all of the foreign investment we've seen is better diversification. There are always some losses and some gains, but on average, we know from experience, you come out ahead.

Mr. Paul Jenkins: The other point, perhaps, very quickly, is that when you look at balance sheets—

The Chair: Sorry. Mr. McTeague wanted to get in a brief question.

Mr. Paul Jenkins: Yes. Sorry.

Hon. Dan McTeague (Pickering—Scarborough East, Lib.): I have just a brief question. Banks have been rather exposed to the

non-asset-backed commercial paper problem down south of the border. Your bank has intervened in concert with other international banks to rescue or to help and assist and provide liquidity to the market. Obviously, there are impacts beyond consumers here with respect to how much available credit really is out there and whether or not this will affect consumers. But I think the real issue for all of us here is to recognize whether or not the disparity between the U.S. Federal Reserve rate and our current interest rate will enhance the strength of the Canadian dollar and therefore have a damaging impact on manufacturing, among other things.

Mr. Paul Jenkins: I'm going to repeat what I've already said. First of all, in the context of putting together our updated projection for the Canadian economy, we had built in a fair degree of easing on the part of the Federal Reserve, indeed easing beyond what they had announced the morning of January 22, which was the day we were making our own announcement. In our base-case projection, we had built in a considerable amount of easing on the part of the Federal Reserve, feeling that that was an important ingredient to get the U.S. economy moving forward, which we do have beginning in the second half of the year and into 2009.

As I noted earlier, in our base-case projection, we have assumed a level of 98 cents for the Canadian dollar. Again, the relationships here are not very precise, but were the Canadian dollar to move to a range that we felt was outside what historical relationships would support, and were it to be sustained at these higher levels, clearly we would have to factor that into our thinking in terms of the impact of that on the Canadian economy through output and inflation.

The Chair: Thank you.

We'll now go to Mr. Van Kesteren.

Mr. Dave Van Kesteren (Chatham-Kent—Essex, CPC): Thank you, Mr. Chair.

I'm going to talk really fast, because I don't have a lot of time.

I want you to take me back to Economics 101. It used to be that the British had the sterling, and then we had gold, and then we got rid of gold; I think in the seventies we abandoned gold. I read that in 1991 the monetary policy came into effect. Explain this to me in layman's terms. We say our dollar is worth a buck. The Chinese take that dollar, and they say, by determining what they can buy, how much that money is worth. Is that kind of what's right? Where does that fluctuation come from? And when you change that interest rate—which is money that is passed between banks—is that kind of like introducing new currency?

It used to be that when we had inflation, governments would print money, and then inflation would come about. I understand where inflation comes from, but I just don't understand where the new money comes in, and that leads to my next question.

I'll tell you why I ask that question. This is scary. The more I listen to you, the more confused I get. That's not because you're confusing. I think you guys are brilliant, and you're doing a great job, but it seems to me that this whole policy is so complex, whereas it used to be very simple. Mr. Eyking was talking about the housing industry in the States, which would determine a nation's wealth, which would reflect on the value of the dollar. Suddenly we realize that those houses aren't worth \$200,000, they're worth \$150,000, and that changes....

Is the same true with a company like Yahoo, which really has no wealth? Do we determine the wealth of a nation from institutions like that, and are they volatile like the mortgage?

• (1615)

Mr. Paul Jenkins: Again, that's a very good but complicated question to answer.

Fundamentally, in terms of running monetary policy, what we do by raising and lowering interest rates is to influence the level of total demand in the Canadian economy. So if you lower interest rates, you support or stimulate higher demand. If you raise interest rates, you do the opposite.

What we try to do, in very simple terms, is to set interest rates at a level that keeps total demand in the Canadian economy close to what the economy is capable of producing. If demand is above that supply capability, it leads to inflation. If it's below, it leads to disinflation. That is fundamentally what we try to do.

Now, in doing that for the Canadian economy, it is complicated. We do need to add up the factors that are influencing total demand in the Canadian economy. That includes what is happening in the United States, because we have these direct trade links with the United States. It includes a view as to what's happening in China, because we see those links through commodity prices. It includes our view as to what's happening in financial markets, because there are links through financial markets.

Our job is to add all of this up in terms of how we see these factors impacting on the Canadian economy, setting policy to keep supply and demand in balance and, through that, inflation low, stable, and predictable. It's that predictability and low level of inflation that we think is the single-most contribution we can make. We do not want to go back to the 1970s and 1980s.

Mr. Dave Van Kesteren: Tell me now why it's either a bad idea or a good idea to peg our dollar at 85 cents.

Mr. Paul Jenkins: Very quickly, let's do two counterfactuals.

Had we pegged the Canadian dollar during that period of the Asian crises, we would have had.... The decline in commodity prices was stimulating the U.S. economy. Had we been on a fixed exchange rate then, we would have had to raise interest rates, leading to higher unemployment and lower wages. You have to regain your competitiveness somehow. Movements in the exchange rate facilitate that.

The other counterfactual is what we're going through right now. Had we been at a peg at 85 cents, with commodity prices moving up, to keep it there we would have had to keep interest rates lower and lower, leading to inflation.

Those would have been the two consequences had we been at an 85-cent peg. I mean, pick your level. It would have led to either disinflation in the one instance or inflation in the other. History, including the history of Canada, and all the research clearly indicates that. And that floating exchange rate, again, plays that shock absorber role.

Mr. Dave Van Kesteren: That answers my question. Thank you.

The Chair: Thank you, Mr. Van Kesteren.

We'll go to Monsieur Vincent.

[*Translation*]

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

You said earlier that if we reduced interest rates and our dollar were worth 85¢US, we would be in a recession.

Did I understand correctly what you said?

• (1620)

Mr. Paul Jenkins: If the dollar...

Mr. Robert Vincent: If we want the dollar to be valued at 85¢US, we must lower interest rates. But if we increase interest rates, we could end up in a recession, if my understanding is correct.

Mr. Paul Jenkins: It depends. Again, we have to make an assumption about the level of the dollar for our projection. If the value of the dollar goes up or down, the first question we have to ask is what causes this fluctuation. There is no simple or direct relationship such as that you mentioned.

Mr. Robert Vincent: Let us suppose you are unable to control the rise of the dollar because of the price of natural resources such as gas and oil, etc. How can you come up with a projection without knowing for how much a barrel of oil will sell the next day, which is a factor that could boost the value of the dollar?

You say that the way to solve this problem is to lower interest rates. But if we lower interest rates too much, we could be faced with a recession.

What are your projections at the present time in order to bring the dollar down to 85¢US? How are you going to achieve this?

Mr. Paul Jenkins: We use the history of the variations of the dollar and the relationships between the factors that cause them.

As I mentioned, after the Asian crisis, when commodity prices dropped, the dollar dropped. More recently, with a very strong global economy and the increase in commodity prices, the value of the dollar increased.

The dollar reflects all the components of the Canadian and American economies. Its value is relative. We must determine which factors cause the movements of the dollar and our monetary policy response will depend on what those reasons are.

Mr. Robert Vincent: I understand that, but you are using your previous experience to make your projections. But today, we are in an economy that is becoming globalized and we therefore cannot rely on what happened before.

We have been exporting and we still export some 80 percent of our manufacturing production to the United States. Due to globalization, we cannot control our dollar because of the influence of China which determines itself the value of its currency. We are unable to counterbalance the volume of China's exports to our market.

The main question I am asking myself is this: what do we do if the price of fuel and gas increases, if the value of the dollar increases and we are no longer competitive? The Americans will no longer buy our products if our dollar is worth US\$1.10. They will buy elsewhere, on other international markets. What will we do then? Will we sink into recession?

Mr. Paul Jenkins: No. According to the scenario you outlined, if the rate of the dollar increases due to the demand for commodities from emerging countries, the appreciation of the dollar will have a negative impact on other sectors of the Canadian economy.

Mr. Robert Vincent: Especially the manufacturing sector.

Mr. Paul Jenkins: Yes. But at the same time resources from the manufacturing sector will transfer to the natural resources sector in order to meet the increased demand for the products of that sector. There are adjustments and movements of resources from one sector to another.

The challenge for the Bank of Canada is to create for the whole economy a balance between overall demand and supply. That is the challenge. It is clear that there will be periods when one sector will be stronger than another.

• (1625)

[English]

The Chair: Sorry, the time is up.

[Translation]

Mr. Paul Jenkins: It was a good question, but the answer will have to wait.

[English]

The Chair: Thank you.

We'll go to Mr. Carrie.

Mr. Colin Carrie (Oshawa, CPC): Thank you very much, Mr. Chair.

I come from Oshawa, and we have a huge manufacturing sector.

Mr. Paul Jenkins: I come from St. Catharines.

Mr. Colin Carrie: There you go—another GM town.

I hear a lot from my constituents about the doom and gloom with this high dollar. I am wondering if you could let the committee know who is benefiting from a high dollar in our economy and what the benefits are.

Mr. Paul Jenkins: The answer is in why the dollar is high. The dollar has moved up because with the demand for a big part of the products we produce and sell internationally the price has gone up. That's a natural response in a market economy. That movement of the dollar is helping us maintain overall balance in the Canadian economy.

To go back to one of the earlier questions, in the absence of that movement upward we would be facing very intense inflationary pressures. There is no question about it.

You have to think about how that movement in the dollar, from a macroeconomic perspective, helps to keep the overall economy in balance and through that keeps inflation low, stable, and predictable. We do not want to go back to the 1970s and 1980s, when we made mistakes. We had boom-and-bust periods and high inflation and interest rates at double digits. Our objective is to keep that balance between supply and demand in order to keep inflation low and stable. That is our main contribution.

How that exchange rate movement affects different sectors of the economy does have positive and negative effects, of course. We're very well aware of that. But from a macroeconomic point of view, in the absence of that movement we would be in a significantly worse situation.

Mr. Colin Carrie: I think it's obvious that the government really respects the independence of the bank, but I've heard different politicians across the nation say that the government should be intervening with the bank and perhaps lowering rates even further.

What do you think of comments like that, and what would be the effect if the government started to do something like that?

Mr. Paul Jenkins: The important point here is that monetary policy does operate with long and—as Milton Friedman said—variable lags. With monetary policy you have to look ahead, as far as the trends that are at play in the Canadian economy. You have to look out one to two years in terms of the actions you take today influencing the economy through that period. That's why it's critically important for us to have a view as to all the factors that are at play influencing the Canadian economy, not just today but over the medium term. So in taking monetary policy decisions, one needs to have that medium-term perspective.

I believe the framework we have in place has served the Canadian economy very well. Our explicit inflation target, which is a joint agreement with the government, has served Canada very well in maintaining a macroeconomic framework that has given us an economic performance over the last 15 years plus that really stands out when you look around the world.

Mr. Colin Carrie: I'm curious whether you in the bank look at statistics or if you could provide the committee with an estimate of the number of people who have migrated from eastern and central Canada to western Canada because of the dollar—things along those lines—and the trade changes.

Mr. Paul Jenkins: Those numbers are available. Statistics Canada actually calculates migration numbers from one region to another. We don't have those with us, but we can certainly provide them to the committee. This comes back to the theme of flexibility and adaptability in the Canadian economy. Certainly when you look at the numbers over the last year or so, you see a significant movement of labour and resources to the west.

Those numbers are available, and we'll get them for you.

• (1630)

Mr. Colin Carrie: Thanks very much.

The Chair: Ladies and gentlemen, we're at the end of our hour. I see there are a number of questions from members who have not had a chance to ask them.

To the witnesses, would it be fair to invite you back in the next week or so?

Mr. Paul Jenkins: We would be happy to come back. I don't know whether next week will work, but this is important, so we would certainly be happy to make ourselves available to the committee.

The Chair: We could go around the room and put some questions on the table. Either option is fine with me.

Would members rather have the witnesses come back?

Hon. Raymond Simard: Yes, I think so.

The Chair: Mr. Brison has a very small question, but he is two members down. If I let him put a question I'll have to let the New Democrat, the Liberal, Conservative.... I'm just trying to be fair to all members.

Hon. Scott Brison (Kings—Hants, Lib.): I'm sure the New Democrats are as interested in my question—

Ms. Peggy Nash: As you are in mine?

Hon. Scott Brison: Touché.

How do you wish to proceed, Mr. Chairman?

The Chair: If within the next two weeks you can make yourselves available for an hour, we'd very much appreciate that. That would be preferable.

Mr. Paul Jenkins: Next week could be difficult, but we will aim to do it the week after.

The Chair: Okay, we appreciate that. Thank you for being with us here.

Members, we'll recess for a few minutes and have the mayors come forward to the table.

•(1630) _____ (Pause) _____

•(1635)

The Chair: We'll begin our second panel with three mayors. We want to thank all of you for coming to Ottawa today.

From Perth we have the mayor, Mr. John Fenik; from Smith Falls we have the mayor, Mr. Dennis Staples; and from Merrickville-Wolford we have the mayor, Mr. Douglas Struthers. Welcome to you all.

We'll start with Mr. Fenik and work our way down. Since we have less than an hour, please make your presentations as brief as possible. You will find the exchange during the question-and-answer session very fruitful.

Mr. Fenik.

Mr. John Fenik (Mayor, Town of Perth): Mr. Chair, approximately how much time is there for each of us for an opening statement?

The Chair: I will indulge you for five minutes. Is that okay?

Mr. John Fenik: Absolutely.

First of all, I'd like to thank everybody for having us down today. I must admit that I don't speak French. I have a town clerk who is bilingual, and she said "If you're going to Parliament Hill, Mayor Fenik, you must learn some French". Hence I will practice what little French I have learned this week, after much practice.

[*Translation*]

Hello. Thank you for this invitation.

[*English*]

That took hours. I hope the delivery was great.

It is very much an honour and a privilege to be given this opportunity to address the committee and speak on behalf of the Town of Perth's industries, leaders, and citizens.

Just a snapshot of Perth: Perth is located about an hour's drive west of Parliament Hill. Perth has a population of just under 6,000 people. If you ever come and visit Perth, I promise it's a community that will captivate you with its beauty and charm. It was founded in 1860 as one of three military outposts established after the War of 1812 and it was settled by a Scottish regiment. As such, we have a wealth of Scottish stone buildings built by Scottish stonemasons. I'm proud of the fact that Perth has been the recipient of many awards, including the Heritage Canada Prince of Wales prize in 2004. We're a community that's fiercely protective of our heritage and the history we've inherited.

In addition to our strong heritage ties we have a large industrial base for a community our size. Our main industries include 3M, Albany International, Cutler Hammer, Eaton Yale, Central Wire, Grenville Castings, Omya, and Perth Soap. Our industrial base employs approximately a thousand people. The combined annual earnings of these companies is about \$40 million.

As mayor, as I watched the rise of the Canadian dollar I became increasingly uncomfortable. And as all these industries are located in a very small town, I endeavoured to knock on some doors. I visited all our industries because I wanted firsthand information on how the rise of the Canadian dollar was affecting our industries. And on a very fundamental level, we all know the answers I received. The rise of the Canadian dollar was good for some and it wasn't good for others, depending on where you were with the import-export business. All the Canadian companies were wondering how long the dollar was going to be high, if there was going to be a stabilization, if this was an economic trend that would continue to go up and down. As such, they were all reacting very quickly in establishing contingency business plans.

I don't have an MBA, and I don't have a business background. I'm just a small-town mayor. But I have to tell you, when I visited these companies I was amazed at how fiercely proud they were of the products they were doing. These companies, these industry leaders said if they were given the right set of circumstances they could compete anywhere in the world and be successful. Their products are good, their people are sound, their manufacturing bases are excellent. But there were some basic issues that were current with all companies, and I'll touch on them very briefly.

The companies spoke of having a level playing field and access to federal dollars that could help tide them through difficult times. They also thought about products and they wanted to emphasize when I came here that there really had to be adopted, from a federal, provincial, and municipal level, an attitude of shopping at home. For example, Larry Smith, the owner of Central Wire, makes welding wire. He can make welding wire for anything. He makes welding wire for airplanes. He said it's very difficult to see federally subsidized contracts for airplanes, whether it be Bombardier or whatever, and these companies are buying welding wire from Brazil or eastern bloc countries when he can provide the same wire at almost the same cost. So it was heartbreaking to see those industries with federal contracts going outside the country for supportive products to make these products.

Some of our manufacturing bases were saying, at Perth Soap, for example, they were feeling the effect of rising....

Sorry?

• (1640)

The Chair: One minute.

Mr. John Fenik: One minute.

Perth Soap is feeling the effect of rising costs of infrastructure, water, and services. They were saying if they had access to federal grants for a cooling tower they wouldn't rely on water resources as much and could be more profitable.

Transportation-wise, if some consideration could be given to fuel tax reduction for these companies that transport these products from Perth all over the world, it would help.

Just in wrapping up, Perth, Smiths Falls, and Merrickville-Wolford are proud communities, and we are intent on securing our economic future. We can be viable in an environmentally friendly, sustainable manner. However, we have to start thinking about relationships in a different way, because there's a different economy emerging out there. We have to think of federal, provincial, and municipal shared responsibilities, because we're no longer separated. I think we're much more joined and have to relate in a different way.

Anyway, those are my comments, Mr. Chair.

• (1645)

The Chair: Thank you, Mr. Fenik.

We'll now go to Mr. Staples, please.

Mr. Dennis Staples (Mayor, Town of Smiths Falls): Thank you for the opportunity. And not to be outdone by the Mayor of Perth, *bonjour*, this afternoon, to everyone.

I think I can cover my comments in five minutes. I want to touch on four areas: job loss, tourism, cross-border shopping, and suggestions for consideration. I'll just proceed with my comments.

In terms of job loss, the town of Smiths Falls, not unlike many municipalities throughout Ontario and Canada, has experienced significant manufacturing job losses in the past few years. At the present time the town of Smiths Falls, with a population of just under 9,000, is faced with job loss totalling 1,500. The planned closure of the Hershey plant in Smiths Falls accounts for well over 500 of these jobs, with most of the balance attributable to the planned closure of

the Rideau Regional Centre, a care facility operated by the Province of Ontario. There are some other manufacturing jobs that are part of that number as well. The 1,500 jobs in question represent good-paying jobs with good benefits that have provided reliable employment for the past 40 to 50 years in the Smiths Falls area.

There are a number of other factors that have contributed to the serious loss of manufacturing jobs in the province of Ontario, which according to many reports amounts to 175,000 jobs since 2005 that have been lost. The factors leading to the job loss include, of course, the rise in the value of the Canadian dollar, global competition, productivity in Canadian plants, the present economic slowdown in the United States, tax policies at all levels of government in Canada, and various other relevant factors.

The town of Smiths Falls, located in eastern Ontario, is faced with the most serious economic challenge in the town's history due to the loss of 1,500 jobs, and this does not include recent downsizing at some of our other local industries in Smiths Falls, which would be added to that number.

This impact is being directly experienced by the affected employees and indirectly impacting on those who supply goods and services to the organizations that are closing in our community. Furthermore, the elimination of 1,500 jobs creates a significant reduction in the spending patterns for the local economy in terms of reduced retail sales of goods and services, in addition to the laid off employees' financial ability to look after household expenses such as insurance, taxes, heating costs, etc. As a result of the local job loss situation in Smiths Falls, we are also discovering that new retail business opportunities are deciding not to locate in our town because of the current situation.

Moving on to tourism, given the recent and present value of the Canadian dollar, the local tourism activity in the Smiths Falls area, particularly from United States visitors, has declined. This is evidenced in Smiths Falls by fewer boaters and campers, reduced overnight stays, and a general decline in out-of-country visitors deciding not to visit our town. In addition, the closure of the Hershey plant in Smiths Falls will have a tremendous negative impact on tourism in our town, in that well over 400,000 visitors a year visit the Hershey plant in Smiths Falls. The visitors to the Hershey plant alone provide significant economic stimulation for the business sector in Smiths Falls.

Other factors that we believe have contributed to this decline are the high cost of gasoline; the prospect of needing a passport or different documentation to cross the border; the slowdown in the U. S. economy; as well as the high value of the Canadian dollar. This has resulted in fewer U.S. citizens travelling to Canada for tourism and other purposes.

In terms of cross-border shopping, the town of Smiths Falls is less than one hour away from three Canadian border crossings to the United States—Prescott, Ivy Lea, and Kingston. Given the recent high value of the Canadian dollar, there has been a noticeable impact on the retail economy in Smiths Falls and other areas within close proximity to the United States. It has made it attractive for many Canadian citizens to travel, in our case to northern New York State, for retail shopping and other tourism purposes. The result is reduced retail sales results in Canada, in Smiths Falls, and increased retail spending in U.S. markets.

Finally, I have some suggestions for consideration. The study data material provided by this standing committee, in particular the list of 22 recommendations, which I have read, will provide measures and strategies to address the serious and significant economic challenges that many Canadians face. In this regard I was hoping to find a recommendation that specifically addressed tax policy in the way that will enable Canadian businesses to compete more favourably with countries. The example I have is Ireland—which has been brought to my attention by local industry—and other jurisdictions that have found ways to become economically successful in the global economy. Furthermore, it is important to introduce and/or revise without delay federal measures that will improve Canada's competitiveness in world markets and hopefully mitigate the serious job losses that have occurred to date throughout Canada.

I also wish to commend the witnesses who have appeared previously before this standing committee and who have offered insightful comment and useful suggestions that will assist in creating a more effective industrial strategy for Canada.

• (1650)

In my view, and in the view of many other Canadians and people in my own community, this is a matter of utmost urgency and importance, based on the economic challenges and job-loss impacts that have occurred and continue to take place throughout Canada.

On January 10, 2008, the Prime Minister announced a \$1-billion program to assist vulnerable communities and one-industry towns facing major downturns. In this regard, we anxiously await further details on this important program announcement, and hopefully much-needed assistance for the town of Smiths Falls and the many other communities throughout Canada facing serious economic challenge.

Finally, I wish to suggest that it is imperative that the three orders of government in Canada—federal, provincial, and municipal—work together not only on these important economic challenges and initiatives, but also on the many other important matters facing the citizens of this great country of Canada.

Thank you for this opportunity.

The Chair: Thank you very much, Mayor Staples.

We'll now go to Mr. Struthers, please.

Mr. Douglas Struthers (Mayor, Village of Merrickville-Wolford): Thank you very much. Thank you, indeed, to all the members of the committee for this opportunity.

I'd like to thank the clerk, Michelle Tittley, for her assistance as I prepared to speak today.

It might be a challenge to explain what the Canadian economy is in 30 words. Perhaps understanding what is happening in communities is a better way to appreciate the Canadian economy. This is indeed a unique opportunity for you to understand that and the impact of the appreciating Canadian dollar. So again, we appreciate the opportunity.

My community and its region might not be typical of all communities and regions in Canada, but it certainly can provide an understanding and provide actions that the federal government can take.

There are three core sectors of my community's economy: manufacturing, agriculture, and tourism, which is our top economic sector.

Grenville Castings is a manufacturing plant, which, as indicated earlier by the mayor of Perth, is in Merrickville, Smiths Falls, and Perth. It used to employ some 300 to 350 people. It's a world-class leader in technology in low-pressure castings. Grenville Castings almost disappeared last year. Fortunately, the company was purchased. The challenge to their sustainability, in part, was the increased value of the Canadian dollar over an extremely short period of time. As the previous presenter said, programs usually take two years. We need to be ready to go with programs that can assist in access to capital for new technologies.

But also keep in mind that bigger is not always better. It seems to escape the notice of political decision-makers that the companies most likely to unbolt the equipment and ship it to Mexico or the Far East are large multinationals. They drive the hardest bargain for us to get them here—I note the Ontario incentive program for the auto sector. Yet they can and do leave for more hospitable climes with increasing rapidity. I understand the global competitiveness issue. They have to count their pennies, and the shareholders demand it.

Those in the economic development world should be paying as much attention to the little guys who create 10 to 15 jobs, 50 to 100 jobs each, and have no intention of leaving, because they started the business in a place where they feel comfortable. They don't want to leave, but we do very little to help them connect to larger markets, resolve their labour force issues, and perhaps, access high-speed Internet. It is those companies that want to stay in Canada.

The eastern Ontario development program is an exceptional regional program for investing in youth retention and attraction, business planning, skills development, local initiatives, and access to capital. It is not a program that asks for a dollar to spend a dollar. Within the last three to four years, some \$30 million has leveraged in excess of \$100 million. That is an excellent program that can be used as a tool, perhaps, in other regions of Canada.

Beef and dairy are the significant components of my agricultural community. Many beef farmers have never fully recovered from the financial losses incurred as a result of the BSE crisis. Dairy farmers, on the other hand, have supply management. They are able to weather the storm, if you will. Is the solution supply management? It's a strong consideration—a possible future consideration, though.

We also need to think outside the proverbial box to use policy and program tools to move agriculture further up the value chain, to move away from purely commodity-based thinking towards higher-value products and services. The federal government can assist in removing unnecessary regulatory barriers to new value products. This may sound like a provincial responsibility, but the federal government does have a role to play.

Emerging challenges are seen as greater challenges than the value of the Canadian dollar. World markets are affecting fertilizer costs. China, Japan, and Korea are consuming major percentages of the available fertilizer. Here are two examples: urea has gone from \$410 a tonne to \$620; phosphate has gone from \$385 to \$650 a tonne. That's a 68% increase. These are the January 11, 2008 numbers from AgriSuccess Express, which is part of Farm Credit Canada.

Tourism, our top economic sector, has perhaps been hit the hardest. To put into perspective what is happening, it is best to understand the indicators. From 1998 to 2006, there was a 50% reduction in border crossings. From 2006 to 2007, there was a 13.5% decline. This was all before the increase in the Canadian dollar. The number of November 2007 same-day shoppers from the U.S. to Canada declined 24.5% compared to the previous November.

• (1655)

The combination of the value of the Canadian dollar and confusion over documentation has resulted in border crossing concerns being the number one issue. The perception in the U.S. is that it costs more in Canada. Not so.

I might point out that the cancellation of the GST rebate adds to the belief that Canada does cost more. The cancellation of the rebate program is sending the wrong message.

Then there is the issue of documentation: what documentation do I need at the border, and can I get back?

We need broad education—social marketing, if you will—on the value of the Canadian dollar and what it really means to our visitors. The cost of coffee in New York State is essentially the same as the cost of coffee in Ontario.

Re-market what the level of the dollar is in context. We need to invest in border crossings. It's a friendly process. Put out the welcome mat.

Can we make it work? Yes, we can. Commercial goods are moving well as a result of improvements—the bar code program, shipping information in advance, computer profiles, etc. So that process is working well, and best in the last five years.

With regard to the Canadian Tourism Commission, Las Vegas is spending more marketing dollars than the CTC. We need to advertise and promote both at and before our border crossings. We need to have a “Buy Us” campaign: buy and shop in Canada, tour and see Canada, support our local economies.

Last year, Dr. Anne Golden, the president and CEO of the Conference Board of Canada, said that with the level of the Canadian dollar, our level of employment, and our level of education, now is a good time to invest. I do not believe Dr. Golden's comment was directed only at the private sector. The public

sector has a role. There is an expression: follow the money. I note that in November of 2007, the federal surplus was in excess of \$100 million. Now is a good time to invest.

I've left with the clerk today four copies of the references for my comments as well as a copy of the Eastern Ontario Wardens' Caucus prosperity plan. I invite you to review that. It has 51 policy goals with specific proposals on how to achieve them.

Thank you very much, Mr. Chair.

The Chair: Thank you, Mr. Struthers. We appreciate that.

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

Hon. Scott Brison: Thank you very much, Mr. Chairman.

Thank you to all your worships for appearing before us today and bringing to us the very important perspective of community leaders who are facing massive challenges. Otherwise, it's all just statistics.

There's an evolution of what was called, when it happened in Holland some time ago, the “Dutch effect”, in that our economic growth in Canada is being driven by commodities and the upward pressure on commodity prices, which is driving up our currency and crowding out a lot of really important manufacturing jobs and other types of industry.

The Bank of Canada—we had them here earlier, and some of you were here to hear them—can only do one thing in terms of really the impact, and it's through interest rates, which is a blunt instrument affecting the whole country. The federal government does have some specific things we can do—in terms of regional development, in terms of tax policy, in terms of tourism policy. So I have a couple of questions in terms of things we can do.

First, which would have a greater impact on your communities, targeted business and personal income tax measures or else a national consumption tax reduction?

Second, on the visitor rebate program, should the government bring back the previous visitor rebate program in order to not add further challenges to the tourism industries in your area?

And third, we spend a lot of time in government trying to attract businesses to Canada. I'd appreciate your views on what we can do to actually help enterprises stay and grow in small-town Canada.

Thank you.

• (1700)

The Chair: Mr. Fenik, do you want to start?

Mr. John Fenik: Certainly.

Thank you for the questions. The third question is probably the one I feel most comfortable answering, and that's with regard to attracting and retaining business.

All of the business leaders in the town of Perth have said that what brought them to the town of Perth was quality of life—good health care facilities, safe streets, schools, infrastructure. And they've said that when that quality of life deteriorates, then their base of operations all of a sudden doesn't look as attractive.

I have a good-news story about Albany International. They closed a plant in Arkansas and are expanding in Perth, a 42,000-square-foot expansion. When I spoke to the plant manager there, it was quality of life for their employees that was important in that community, but it was also retention, the cost of doing business, fuel. If the federal government could have some influence around the taxes with rising fuel prices, that would certainly help in maintaining businesses.

Mr. Dennis Staples: I'd like to go next.

We have about 20 industries in Smiths Falls, the largest being Hershey, which is leaving. The next two are parts of U.S. branch plants, Stanley Tools and Shorewood Packaging, and both of those organizations have indicated to me, on several occasions when I've met with them in the past several years, that a decision would be made in the United States, in a boardroom, to close those operations in Canada because it's cheaper to do it in places like Mexico. So it's the value of wages. It's the issue of the exchange rate. It's the issue of capacity within their organization.

Now, just through way of example, one of the major factors of why Hershey is leaving Canada—all three plants, and they shared this with us last April—is the fact that when they look at the productivity, their plants are operating at about 40%. So they have too much capacity, which they can't fill up with product. We're seeing that contraction in terms of in favour of either going back to the U.S. or to other countries such as Mexico.

However, to answer your question, what I'm hearing from the industry leaders in Smiths Falls is that if we can find ways to—and I stress this in my point—look at the taxation policies at the three levels of government in terms of making it universally attractive for people to stay or to come to this country to do business, I think that's where the solution would take us and needs to take us. That sounds like a very general answer, but I keep hearing that other countries have been successful in that realm.

One of the comments you will probably counter with is, well, if we reduce our tax rates then we're going to lose revenue. It's been brought to my attention. I agree with this, that if we reduce the tax rates we might find more joining the party to do business in this country. I think that's vitally important.

Hon. Scott Brison: But they reduce corporate taxes and personal income taxes, not consumption taxes.

Mr. Dennis Staples: Yes, exactly.

The Chair: Mr. Struthers, do you want to make a brief comment?

Mr. Douglas Struthers: Yes, thank you.

I would speak to the visitor rebate program, the GST. That in and of itself is a part of what the problem has been out there in terms of what is the image. I'm not sure what the dollar value is to the Canadian economy to not rebate the GST. I would suggest rather to look at other opportunities to get the right message out there. As I indicated, the number one issue is crossing the border—what documentation do I need and what do I need to get back home again?—and remarketing: what does the value of the dollar mean? Today a dollar gets you a dollar here and a dollar gets you a dollar there. The cost of doing business in terms of I'm a tourist, I'm a guest in your country, is virtually the same. Get rid of the barriers that are saying to people, I don't think I'm going to get there because I don't

know how I'm going to get in, and I don't know how I'm going to get home.

● (1705)

The Chair: Thank you.

Thank you, Mr. Brison.

We'll go to Madame Brunelle.

[*Translation*]

Ms. Paule Brunelle: Welcome, Gentlemen. Thank you for being here.

When I hear you talking about your communities, it reminds me very much of mine, the city of Trois-Rivières. I am the MP of Trois-Rivières, a city of 130,000 residents which has grown around big businesses, mainly paper companies.

Over the last 20 years, many discussions have been held and actions taken in order to encourage small and medium enterprises and try to diversify the economy. Trois-Rivières used to have the largest paper industry in Canada. This is no longer true.

It is very difficult for cities to maintain their economic strength. What we are seeing today, and which I regret, is that well-paying jobs in the paper companies have been replaced by service sector jobs, for example in large call centres. Since Trois-Rivières is a francophone city, this attracts sub-contractors of Bell Canada. But these jobs are at minimum wage and do not provide the same economic benefits for local businesses.

Mr. Staples, when you talk about a city of 9,000 people that loses 1,500 jobs, this looks tragic to me.

You say that the Standing Committee on Industry, Science and Technology made suggestions. Indeed, these recommendations were passed unanimously in this committee. They are valuable, but the government is very slow implementing them.

You talked about the billion dollars that was announced. In our view, in the Bloc québécois — and I know it is the same in Ontario —, this is not enough. Furthermore, this money is not properly distributed because it is pro-rated on population. But Quebec and Ontario have many more businesses and people getting hit than elsewhere in the country. The manufacturing and forestry sectors will have to share the crumbs of this assistance. Finally, it is unacceptable to us that this assistance be tied to the passage of the budget. That being said, this is a political debate and I am not asking you to take part or to comment on it.

On another subject, I would like to know how the business tax reduction measures that have been announced can assist businesses who do not make any profit to restructure.

Obviously, businesses will need to modernize. Many parts of the committee report could be implemented, but this would require political will.

What advice could you give us in order to help parliamentarians to make the government understand that more appropriate measures are required? Do you have any advice for us?

[English]

The Chair: Mr. Staples.

Mr. Dennis Staples: Thank you.

I missed the first part of that, but I caught the major part of it. Thank you.

I have a couple of comments. I would very much welcome, and I'm sure my colleagues would be very appreciative of, being involved in a debate on this matter that affects all Canadians. Let me say that right off. The opportunity here is to find a way to find solutions immediately if that's at all possible, and I think that's absolutely required right now. I made reference to the 22 recommendations, and if you can bear an analogy, I think we need to hit a home run on this one to make sure that we take action right now to stop the flow of jobs out of this country.

What I'm hearing in my community is sure, we've lost jobs in eastern Ontario, but we've created jobs elsewhere. They are certainly not being created in eastern Ontario. However, we are getting the odd inquiry where people are telling us that they would like to set up shop in Smiths Falls because they have a great idea, it's a new technology or a patent, and they could create jobs. And what we're finding is they're saying if they can't do it here they can go to the United States or some other country. So we are losing opportunities.

The Chair: Mr. Staples, could I get you to speak a bit more slowly, because it is being interpreted at exactly the same time.

Mr. Dennis Staples: My apology. I thought I was under a time constraint.

The Chair: Sorry. I should have mentioned that before.

Mr. Dennis Staples: We would very much look forward to finding some immediate and responsive and timely way to manage and follow through on opportunities that would solve the problems you're talking about today and that we're experiencing on a daily basis in our communities.

That would be my response.

Mr. Douglas Struthers: May I make a comment, Mr. Chair?

I think it's also understanding what we have in our rural areas of this country. I could speak to Ontario, but I also allude to the province of Quebec. Last year I had a meeting with some economists at the Conference Board of Canada. As it turned out, they were being commissioned, if that's the right word, to do some work for the province of Quebec, understanding the rural connection in the rural economies, but also the connection to the urban economies.

We showed them—this goes back to the Eastern Ontario Wardens' Caucus—a profile of the eastern Ontario regional data set. They were quite impressed by the template, because they said it puts in perspective the territorial assets or capital available in our broader regions. Collectively understanding that and knowing what kind of programs will fit what regions—in other words, not taking a cookie-cutter approach—is of great value. The federal government, in this particular case, is saying, let's look at a program we can put in place, but understand the region that we are working with.

We've talked about manufacturing, but in our area there's the other aspect of our region, called the Rideau Canal corridor. It is now a

world heritage site. One of the requirements to be a world heritage site is that it must be sustainable. It's the communities along the Rideau Canal system that will make the canal sustainable, but we must make sure that the communities themselves are sustainable. So it's understanding, from a tourism perspective, as Mayor Staples has indicated, and from the retail perspective and the manufacturing perspective, as Mayor Fenik has indicated.

As important as it is to take action, the information is there. We have the people who have the skill sets to bring it forward in such a manner that we can say this allows us to take the next step to understand the region and have the appropriate programs to support new technology, skill development, etc.

• (1710)

The Chair: Thank you. The time is over, unfortunately.

We'll go now to Mr. Carrie.

Mr. Colin Carrie: Thank you, Mr. Chair.

Thank you very much, Your Worships, for coming before us today. I'm going to make a very quick attempt, so as not to talk very much. You know how difficult that is for a politician, but I'd like you to have the opportunity to talk.

I was particularly intrigued when Mayor Struthers mentioned that you have done some quite impressive work—51 recommendations that you delivered. Would you be able to elaborate on the top three or four of those and let us know a bit more about them? It sounds as though you've done some of this work.

Mr. Douglas Struthers: To put it in perspective, one of them is addressing the broadband gap in eastern Ontario. Broadband in the 21st century is what the telephone was in the 20th century.

The challenge is.... Unfortunately, I don't have the numbers right at my fingertips, but I do have them with me. When you look at the population density in eastern Ontario, particularly when you get out of the large urban centres, which include Merrickville and Smiths Falls and Perth, it's a challenge. But many of the businesses that support our local communities are, if you like, in the fringe. They're outside of the core areas of the ISPs, the Internet service providers. They don't have the wherewithal to bring the service.

There was a provincial program last year to help in the first step to address that gap, and I believe there has been lobbying, if that is the right word, or encouraging of the federal government to participate in it. It's a very strategic policy goal, very achievable. There's a proposal for how to reach that goal.

Mr. Colin Carrie: I know Alberta is funding their broadband strategy right now. Do you know how much money the Ontario government is putting in?

Mr. Douglas Struthers: The Eastern Ontario Wardens' Caucus collaborated with the Eastern Ontario Broadband Coalition, and two years ago it was thought that to address the gap would cost in the \$50 million to \$60 million range. That number, I think, has since come down as companies continue trying to expand.

The provincial program last year was a \$10 million program. In some communities they had a phased approach, but some of the responses to the RFP were actually proposing to invest more money than the one-third that went with the municipal-provincial program.

It has been a very successful first step, but I think if there were any one thing—not to diminish the need for maintaining and indeed enhancing our transportation links in eastern Ontario and the issues of cost of fuel—broadband is the key.

Our document shows, and Mayor Staples has alluded to this, that in eastern Ontario alone we have five deep-water ports. The world is out there. We have three significant crossings to the United States, our largest trading partner in the world.

• (1715)

Mr. Colin Carrie: I know our government has been working very hard at decreasing regulations.

I did have a question for Mayor Staples. You brought up the example of Ireland.

Mr. Dennis Staples: Yes.

Mr. Colin Carrie: You mentioned how successful they have been. One of our goals, really, is to see what we can do to attract more foreign investment into the country. We've already implemented the capital cost allowance writeoff. We're looking at those 22 recommendations, the SR&ED tax credit, and we've had some very positive input from manufacturers on that.

So, corporately, we are trying to lower corporate taxes to the lowest rate in North America from a federal standpoint. But I do understand that Ontario is one of the most highly taxed jurisdictions. We do have challenges with the provincial government on philosophies on how we can work with that.

You mentioned there were some federal measures we should reinstate. I was curious about what federal measures you thought we should be reinstating.

Mr. Dennis Staples: I picked that comment from the summary of recommendations. I looked at it very briefly. There's no specific comment I can make on that, other than to try to find a way—if I could answer it—to have the three levels of government looking at what we do, individually and collectively, to make it more attractive for business to stay in this country, whether in Ontario or other provinces, and to attract new investment into this country.

If I can just give you two quick examples that pertain to Smiths Falls, we have a small company in Smiths Falls called GH Metal. They're doing a small expansion right now of about 5,000 square feet and will add 50 to 75 more jobs, which is like a new industry coming to Smiths Falls, similar to what Mayor Fenik mentioned about Albany. However, this company is being wooed by New York State to move there. This company in Smiths Falls—and I don't want to jeopardize their success going forward—produces all of the mailboxes for Canada Post across this country. We're proud to have them in Smiths Falls. They also produce mailbox paraphernalia for 44 other countries around the world.

However, there's an opportunity coming up where that business arrangement will be reviewed in the next little while. So I'm hoping that's something the federal government can look at with policy to say it would be advantageous to keep those types of business entities in this country—going through the competitive process as well.

If I could just add one other example, we have another company in Smiths Falls called Wills Transfer, which to date has been taking

finished goods from companies like Hershey's, Shorewood Packaging, and Stanley Tools, to give three examples, and now they've had to diversify their approach because the level of business for them has dropped off. So rather than taking goods to markets across Canada and the United States, as they did previously, they're now picking up finished goods in the port of Montreal and delivering them back into our communities.

That's what's happening in our economy.

The Chair: Okay.

Thank you, Mr. Carrie.

We'll go now to Ms. Nash.

Ms. Peggy Nash: Thank you to all of your worships for being here today. It's really important to have your firsthand experience as leaders in your respective communities to understand in a very direct way what's happening in the economy in people's day-to-day lives. Thank you for your presentations.

I'm a big believer in our industries and our employers and the men and women who go to work every day and provide the goods and services we all rely on. When people talk about statistics of companies closing or laying off, or the impact in abstract economic terms, it really kind of glosses over the true impact of what this means in people's lives.

I think the significance of you three coming here as witnesses is that you are representing relatively small communities. I come from Toronto, and we have had about 125,000 jobs lost in the manufacturing sector, but when you talk about, for example, the Hershey plant in Smiths Falls, it's a big facility, but the proportionate effect on a community like Smiths Falls is massive.

We've been talking a lot about the impact of the Canadian dollar on manufacturing because the manufacturing sector not only provides the goods that we need in our economy and that we export, but it provides people with that quality of life—as Mayor Fenik has said—in terms of being able to support families and provide a good tax base for our communities as well. It is a very important part of our economy.

Something that I always try to do in my own community—we have a lot of small businesses—is I'm always urging people to buy local, to shop with their local businesses, because it does make a huge difference.

Mayor Fenik, you raised an issue I would like you to elaborate a bit more on. When Canadian funds—our tax dollars—are being invested in production of defence or whatever kind of procurement, to then see those dollars contracted out to purchase abroad... There really should be consideration given to Canadian production. Can you elaborate more on how you would see that happening, or what would work in your community in terms of a Canadian component to procurement?

• (1720)

Mr. John Fenik: Certainly.

In the case of Central Wire, a global company that manufactures welding rod for airplane construction, what they are simply saying is please give us a level playing field. They're saying don't be protectionist on the world global stage, and when we federally subsidize contracts to manufacture something, don't close the doors and say we're only going to stay in Canada. The plant operator was simply saying give us an opportunity to bid on the same contracts; give us an opportunity to stand shoulder-to-shoulder with those eastern bloc countries, with the South American Pacific Rim countries, where we can stand shoulder-to-shoulder and submit the same type of request-for-proposal documents so that indeed the best product and the best delivery is at hand. Certainly he felt that in the huge amount of money spent on federal projects, smaller companies—perhaps because of their small profile—were left out of the ability, as Mayor Staples said, to go up to the plate to swing the bat. He was saying just give us a chance, and we can do the same thing.

Ms. Peggy Nash: On the issue of procurement, you're saying at least give consideration to Canadian procurement. That is not to say you cut out competition, but at least let the Canadian operations into the game and that could make a huge difference for Canadian suppliers.

Mr. John Fenik: Yes.

Ms. Peggy Nash: Thanks very much. That's my question.

The Chair: Thank you, Ms. Nash.

We'll go now to Mr. McTeague.

Hon. Dan McTeague: Chair, I'll be splitting my time with Mr. Simard.

I want to pick up where Ms. Nash left off.

Mr. Fenik, Mr. Staples, and Mr. Struthers, first of all, thank you for being here. It is critical. What has happened to your communities was very much at the heart of why this committee unanimously came forth with those recommendations, and this committee again reinforces the message to the government that all those recommendations should be implemented as soon as possible.

You discussed the question of infrastructure—all of you in your own separate ways. Mr. Fenik, you talked about the water tower. I note that FCM has taken a very strong position with respect to using gas tax and other things dedicated to municipalities. How will this help your current situation if the federal government relinquishes and provides direct funding to municipalities, such that they could build infrastructure that might in fact entice the kind of new development or the kinds of new opportunities that you so wish to have?

Mr. John Fenik: Certainly any dollars that are afforded our municipality from those types of revenue sources are not spent on initiatives in, should I say, frivolous areas. Those dollars are focused on infrastructure.

Perth is a 100-year-old town. We have an assessment base that isn't growing. Primarily senior citizens reside in this town. We can't raise any more dollars.

The success of our manufacturing and good job base is in being able to supply affordable water and road systems in our town. We are continually having to increase our water and sewer infrastructure

costs to industries and to our residents, so those dollars are greatly needed.

With the fuel tax, we were afforded \$97,000, which doesn't seem like a lot, but for a town with an operating budget of \$6 million it goes a very long way. Those dollars are spent for infrastructure design and enhancement.

• (1725)

Hon. Dan McTeague: That's very helpful.

Mr. Staples, when Wills Transfer is making its way around Poonmalie Line in your community, what kind of help do you think a gas tax abatement could have to a company like that? The federal government charges 4¢ on diesel as opposed to 10¢ for anyone else, and for the province it's 14.7¢ right across the board. There is no difference. How do you think this will help?

Mr. Dennis Staples: I think any assistance that would enable businesses to operate in a more cost-effective manner that doesn't jeopardize any programs the federal, provincial, or municipal governments have to deal with would be advantageous.

I have to make a quick comment on infrastructure. We're talking about infrastructure in our community of Smiths Falls. It's not fancy. We're talking about rebuilding a water plant. We currently have a shortfall of \$6 million based on an engineer's estimate. We have to find \$6 million locally. We have an arena that is 60 years old that my colleagues use. It's that old struggle of cost-sharing arrangements.

And I would like to add one more comment. It has been suggested to me that we need to raise municipal taxes in Smiths Falls. That's a huge problem. By way of example, I have a house in Smiths Falls that is assessed at \$250,000. When I ask federal or provincial politicians what they think my municipal taxes are, no one ever gets this right. They usually say they're probably around \$2,200. They're almost \$4,500. That's what we're dealing with.

Hon. Dan McTeague: I'd like to yield the floor to Mr. Simard.

The Chair: Okay, but I did have Mr. Struthers.

Mr. Simard, do you want to put your question, then?

Hon. Raymond Simard: I'll address it to Mr. Struthers, if I could.

We've spoken almost uniquely about the manufacturing sector. I'd like to know how healthy your service sector is. Is it dependent on a strong manufacturing sector? If you're losing all these jobs, do the lawyers and doctors and everyone else go? I would like you to touch on that.

The obvious question is about diversification. When you lose 1,500 jobs in a town of 9,000 people, obviously you want to try to lessen the blow by diversifying. How can we help you there?

The Chair: Mr. Struthers.

Mr. Douglas Struthers: First of all, it's a collaborative effort, and today is a good start on that. But it's also understanding that in all of the communities, whether they're looking at manufacturing, agriculture, or tourism, the economies are intertwined. So losing manufacturing jobs is a hit, and as Mayor Staples has indicated, it hurts the retailers and so on.

I think there needs to be a global look at the community, but you need to focus on what you are good at and on what is appropriate for that community. Indeed, we have a mayors group that is looking at some opportunities at the Rideau Regional Centre. The investment of dollars can be very strategic, in terms of gas. When you look at the population in eastern Ontario, there are 17 persons per square kilometre. That's a lot of roads, not just for people who travel to and from work, because they don't necessarily all live in Merrickville if they're working in Merrickville, or conversely in the town of Smiths Falls, etc. So we need to be strategic and understanding with regard to the components that make an economy run well.

If I may comment a little bit in terms of taxes and the value of gas tax dollars, eastern Ontario has \$1 million of assessment per square kilometre. Western Ontario has \$2.5 million. Ninety percent of the total assessment in eastern Ontario is residential. With a limited assessment growth of less than 2%—this is at the county level, and there are 13 counties in eastern Ontario—the average levy increase for the last five years is 8.1% per year. So the federal gas tax dollars are of significant value, and we appreciate the fact that there's a

commitment, I believe, until 2013. We're working with the provincial government because their provincial gas tax dollars are for communities with transit systems only. With respect, rural Ontario has a transit system of roads and bridges. There is a significant part of the equation that we haven't touched on today and probably won't—

● (1730)

The Chair: I'm sorry, but the bells are going so we won't have enough time.

I'm sorry, Mr. Struthers, but members do have to get to the House.

I want to thank you all for being with us here today. If you have anything further to submit, please do so through the clerk. We will ensure all committee members get it.

Thank you.

The meeting is adjourned.

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