



Building a Diversified, Value-Added, Productive Economy:

**Submission to the
Competition Policy Review Panel
Government of Canada**

From the Canadian Auto Workers Union

2008

The CAW: Building Canada's Economy, and Canada's Labour Movement

The Canadian Auto Workers represents some 260,000 members currently working in all regions of Canada, in a diverse range of different industries. We count at least 16 different definable sectors within our membership. Auto assembly and auto parts manufacturing today constitute less than 30 percent of our total membership. The remainder are employed in a wide range of goods- and service-producing industries, including: aerospace; heavy truck and bus manufacturing; specialty vehicles; electrical and electronic products; general manufacturing; air, road, and rail transportation; hospitality services; health care and other public services; mining; and fisheries.

Since our foundation in 1985, as the result of a split away from the U.S.-based United Auto Workers union, the CAW has been passionately concerned with Canada's continuing economic progress toward becoming a full-fledged industrial economy. For reasons of history and geography, our economy has traditionally been structurally and qualitatively underdeveloped: we have depended too much on foreign capital and technology, and relied too much on the production and export of unprocessed or barely processed natural resources (in various historical waves, beginning with fish and furs, proceeding through forestry and agricultural products, minerals, and most recently energy). This structurally weak pattern of development has hindered our full economic and social development as a country. (In a labour movement context, this underdevelopment is also reflected in the unusual fact that about half of Canadian private-sector union members belong to foreign-based unions.)

Building a more diverse and independent economic foundation has been a preoccupation of Canadian governments (until the current free-trade era, anyway) since Confederation. It is a goal we share.

We represent workers in the primary, secondary, tertiary, and public sectors of the economy. All of us worry about a negative structural trend which has become visible this decade: our renewed national reliance on resource products, and the long-run economic, geopolitical, and environmental risks which that reliance entails. We are deeply concerned at the erosion of Canada's manufacturing industry in the current decade – and outraged at the lack of concern over that development on the part of our leading economic policy-makers in the federal government and the Bank of Canada. We recognize that economies, technology, and jobs must change over time, and we do not try to stand in the way of that change – such as the inevitable growth in the relative importance of services in our overall economy. But we are determined to manage and shape that change in the interests of better, more secure lives for all Canadians.

The work of this Competition Policy Review Panel provides a welcome opportunity for Canadians to ponder the longer-run, structural forces that are shaping our economy. We think the panel must cast its net broadly to consider these broader factors, since they will influence the quantitative and qualitative development of our economy for decades to come.

Canada's Worrisome Economic Direction

The CAW is concerned Canada's economy is undergoing a profound structural change that will define and (in many ways) harm our national prospects for decades to come. Canada is increasingly specializing in the production and export of unprocessed or barely processed natural resources – especially petroleum and other minerals. The growth and prosperity of export-oriented petroleum and mineral industries has a range of effects, both positive and negative. On one hand, this growth generates incomes and export revenues, some of which “trickle down” from the resource sector into other industries and regions of the country. The resource boom has clearly been an important factor behind the strong nominal income and spending growth that has contributed, until recently at any rate, to relatively healthy overall growth and job-creation in the Canadian economy. On the other hand, however, the resource boom also carries several negative consequences, including longer-term risks posed to our currency, our value-added industries, our federation, our environment, and our role in the world.

The expansion of resource extraction and export, along with the startling erosion of our value-added manufacturing capabilities (which seems to be the flip side of the resource boom) has reversed what we consider to be several decades of previous progress toward building a more diversified and developed economy. This has been a central policy goal of Canadian governments since before Confederation. A long series of important policies – from the National Policy, to the Auto Pact, to Technology Partnerships Canada and other measures – was motivated by this effort to harvest more value, more jobs, and more stability from the resources we are blessed to own, and to stimulate the development of a more diversified and stable industrial structure.

In the last two decades, however, governments have adopted a much more hands-off role in overseeing our national economic development. For a mixture of ideological and fiscal reasons, governments have endorsed (actively and passively) the market-driven regression of Canada into global energy and resource supplier. Free trade agreements (especially the NAFTA, which explicitly assigns Canada a role as energy storehouse for the U.S. economy with its unprecedented and outrageous energy-sharing provisions) have been important in cementing this trend.

Future generations of Canadians will experience the impacts and consequences of this historic structural change in Canada's economy. Yet despite the vast stakes, this backwards evolution does not reflect any deliberate government or collective decision. It reflects the power of global market forces, and private investment decisions, over our economic destiny. And by accepting and even celebrating the power of private businesses to fashion our economic future in this way, Canadian governments are ratifying this profoundly important change in our economic path.

Canadians should think carefully about this resource-led restructuring of our entire economy, and what it implies for our national economic and social prospects – including our technological development; our economic and political stability; and our environment. We should not blindly accept the role of global commodity prices (which

are always unpredictable, and unlikely to stay at current peak levels for long) in shaping our entire national economy. We should not grant immensely profitable resource companies the sole power to shape our economic future, by virtue of their decisions to commit tens of billions of dollars to new resource extraction projects. We must carefully review (and, in our view, regulate) the broader consequences of those resource-oriented investments. The various regulatory powers of the federal government – including competition policy, regional development policy, environmental policy, international trade policy, and foreign investment policy – all have an important role to play.

Describing Canada’s Backwards Structural Evolution

This decade has marked an important and little-noticed turning point in Canada’s economic development. Decades of progress in promoting a more diversified, and less resource-dependent, economy have been reversed. Canada’s economy is once again becoming more reliant on natural resource exports for a growing (and now dominant) share of export revenues, corporate profits, and new investment. This reflects a number of factors, including historically high global prices for oil and other resources, technological developments (which have allowed for the profitable exploitation of unconventional or less lucrative resource deposits), and policy decisions by governments (both Canadian and foreign).

One indicator conveniently summarizes the extent to which Canada’s economy is currently hurtling “back to the future” as a result of the resource boom on one hand, and the corresponding decline of value-added activities on the other.¹ Figure 1 illustrates the proportion of Canada’s total merchandise exports which consist of unprocessed or barely processed resource products (including energy, minerals, bulk products, forestry products, and agricultural products). This ratio declined fairly steadily over most of Canada’s history, reflecting our qualitative economic development and our growing capacity to produce a broader range of products (for both the home and global marketplaces). This expanding portfolio of export products included automotive products, aerospace, telecommunications equipment, and other higher-value products.

Deliberate, pro-active government programs played an important role in this gradual industrial progress. These active measures included: the careful use of military spending to promote domestic industrial development in World War II and subsequent years; the Canada-U.S. Auto Pact of 1965; strong government efforts (including, at times, equity investment) to develop a domestic aerospace industry; and efforts to stimulate Canadian research and engineering capacities, including through government-funded research programs which supported many commercial applications.

¹ The term “value-added” activities is used here to refer to industries which aim to enhance and diversify higher-level secondary and tertiary production through: the additional processing and secondary manufacturing of resources; the development of more sophisticated supply industries to feed into resource production activities; the development of other higher-technology manufacturing industries; and the expansion of tradable services industries. All of these industries help Canada to both reduce its reliance on raw resource extraction, and to maximize the domestic economic spin-offs from resource sectors.

Broader economic and social factors also played a role in Canada's qualitative economic progress. For example, Canada's currency was undervalued for much of the 1980s and 1990s. And Canada's public health care system significantly reduced labour costs for private employers (in contrast to the U.S.). These factors helped to attract investment in value-added manufacturing industries. Right up to the late 1990s, Canada's economy demonstrated growing qualitative strength: a greater diversity of production and exports, a falling reliance on pure resource production, and a greater national capacity to take on more complex and valuable economic functions.

Since 1999, however, Canada's economic trajectory has been fundamentally altered, as the result of a powerful combination of factors. From a low of just over 40 percent that year, the proportion of our exports consisting of unprocessed or barely-processed resource products has expanded by almost half – to nearly 60 percent last year. This reflects both an increase in resource exports (mostly reflecting very high prices for these commodities, not an expansion in the *quantity* of those exports), and a decline in value-added exports. Manufactured exports have declined as a result of a slowdown in the U.S. market (the destination of most of our exports), competition at home and abroad from new global producers (such as China), and the rise of the Canadian dollar (which has made Canadian-made products very expensive to global customers).

It is interesting and important to note that the increase in the value of resource exports far outstrips the quantitative growth of resource production. Employment and output in the energy and minerals industry has increased only modestly in recent years, despite the incredible increase in prices and profits in this sector. Shockingly, since 1999 real GDP in the oil and gas sector has grown more slowly than real GDP in Canadian manufacturing (see Figure 2)! And the broader mining sector (including non-petroleum minerals, as well as oil and gas) has expanded (in real terms) more slowly than the Canadian economy as a whole. In labour terms, new jobs created in the broader mining sector (including oil and gas) since 2002 offset less than one-fifth of the jobs lost in Canadian manufacturing facilities over the same time period (see Figure 3); new jobs in the oil and gas industry alone offset only one-fifteenth of lost manufacturing jobs. In both GDP and employment terms, private services industries have grown faster than mining and energy. So the main change in the Canadian economy has not, for the most part, been a re-allocation of real output and employment toward resource industries. While prices and profits in minerals industries are booming, real output and employment are (perhaps surprisingly) relatively stagnant.

Real economic expansion in minerals industries has been held back by supply constraints (after all, these are non-renewable, inherently limited resources) and time lags in developing new projects. The main effect of the global commodities boom on these industries, therefore, has been a dramatic increase in one-time profits (or “rents,” in economic terms) which resource producers are able to extract from their existing activities. Profitability in energy and mining industries has been extremely high. As indicated in Figure 4, net profits in oil and gas alone have grown by almost \$30 billion since 1999. Oil and gas, mining, and finance together account for two-thirds of all new profits generated in the Canadian economy during this period. However, resource super-

profits, while large, are also inherently temporary (reflecting the intersection of limited resource supplies, concerns over security of supply, and currently strong world demand) and cannot provide a strong, sustainable foundation for a whole nation's economic development. Moreover, while these resource profits have generated certain economic spin-offs (for regional economies, regional labour markets, and governments), serious questions must be asked as to whether the people of Canada are receiving a fair share of the value of these non-renewable resources.

Resource production is growing, mostly in value terms (rather than real quantities). New opportunities in resources do not offset the decline in production and employment in manufacturing. Where are the rest of Canadians finding work (including those who have been displaced from manufacturing, as well as the hundreds of thousands of new workers who join the labour force each year)? The expansion of services production absorbs the remaining segment of people and capital displaced from manufacturing and not utilized in resource production. The private services sector accounts for about two-thirds of all new jobs created since 2002; public services account for the other third. (The combined goods-producing side of the economy, including primary industries, manufacturing, and construction, has had no net job growth since 2002.) The absolute and relative expansion of services production is not in itself a necessarily negative development – although there are many issues surrounding the quality and productivity of services activities, some of which we will consider below.

For the purposes of Canada's role in international markets, however, an important issue is that most services production is *non-traded*: that is, its production and consumption occurs within the same region (by virtue of the inherently non-transportable nature of the services). Well over 90 percent of private services, and virtually all public services, are non-traded, and hence do not contribute directly to Canada's international trade performance. (A few specialized service industries are tradable – including finance, some business services, some higher-end health and education services, call centres, and tourism; most services, however, must be consumed in the immediate vicinity of where they are produced.) With the expansion of resources not offsetting the decline in manufacturing, and a growing share of total output consisting of services production, the end result has been a notable decline (again beginning in 1999) in the share of Canada's total GDP which is exported (and a corresponding increase in the share which is non-tradable). As illustrated in Figure 5, the result has been a surprising *reversal* of the historical trend toward greater integration of Canada's economy with world markets: from a peak of over 45 percent in 2000, the proportion of Canada's GDP which is exported has declined by 10 points, to just 35 percent last year. This runs counter to the standard assumption that globalization is becoming increasingly dominant over our economy; in fact, one-tenth of Canada's economy has been *de-globalized* in this decade alone, coincident with the shift of production into non-traded services.

Here, too, the rise of non-tradable production is not necessarily a negative development – although the fact that tradable industries historically demonstrate higher levels of productivity and income give some reason for concern with this structural change.

The Crisis in Manufacturing

We will now consider the decline in Canadian manufacturing industries during this decade in more detail. Following decades of deliberate, concerted effort by all stakeholders, by the mid-1990s Canada had become a global manufacturing powerhouse. For the first time in our history, we had become, in aggregate, self-sufficient in the production of manufactured products: in other words, we exported as much as we imported – and then some. For a country which had traditionally relied on the export of natural resources to pay for imports of value-added merchandise, this was a tremendous achievement. Sadly, however, this achievement would not last. Since 2001, Canada's reasonably successful manufacturing trade position has melted down into a manufacturing trade deficit that will likely exceed \$30 billion for 2007, and is still growing rapidly (Figure 6).

Canada's manufacturing sector has lost over 350,000 jobs since employment peaked in 2002. In relative terms (measured as a share of total employment), the decline began earlier: in 1999, about the same time as Canada's manufacturing exports and manufacturing trade balance began to decline. As indicated in Figure 7, the share of manufacturing in total employment has fallen by 4 percentage points (or over one-quarter) since then, to 11.5 percent by the end of 2007 – the lowest in our postwar history.

Our postwar success in building a more diversified, productive, value-added industrial base reflected incremental progress across a range of different high-value industries – including aerospace, specialty vehicles, telecommunications equipment, and certain types of machinery. No single sector was more important to our postwar industrial development, however, than the automotive industry, which remains (despite recent tribulations) the most critical pillar in our industrial economy. When Canada's automotive industry peaked in 1999, we ranked as the 4th largest assembler of motor vehicles in the world – an astonishing achievement for a country of our size. On a per capita basis, we were the largest automotive producer in the world. And we enjoyed a \$15 billion trade surplus in automotive products (Figure 8). Canadian facilities benefited from strong investment throughout the 1990s, attracted by highly cost-competitive conditions. That strong competitive position resulted in part from our undervalued currency and our cost-efficient public health care system (which saved automakers as much as \$10 per hour worked in total labour costs). Reinforcing our competitiveness was superior productivity performance. New investment in capital equipment, and a commitment to productivity and progressive work practices by the Canadian auto union, enhanced productivity growth; Canada's auto industry became one of the rare manufacturing industries in which labour productivity is higher in Canada than in the U.S.

Since 1999, however, this key industrial success story has been abandoned by changing economic realities and inaction by policymakers. By 2006, the large automotive trade surplus of 1999 had melted away into Canada's first automotive trade deficit in a generation – and that deficit exploded in 2007 to become the largest in our history (an

estimated \$7 billion). This large automotive trade deficit results from the fact that Canada's automotive trade surplus with our major customer, the U.S., no longer offsets our large and growing trade deficit with other producers. This non-U.S. auto trade deficit reached nearly \$18 billion last year. The imbalance is particularly acute with Japan (from whom Canada imports 120 times as much automotive products as we export there) and Korea (from whom we import 185 times as much automotive products as we export). As a direct result of the deteriorating automotive trade performance, over 10,000 well-paid jobs in auto assembly have been lost since 1998; over 15,000 jobs have disappeared more recently from the auto parts sector (since 2001). At least 10,000 more auto jobs will disappear this year as a result of announced layoffs and plant closures by both auto assemblers and auto parts producers. The shocking decline of Canada's once-vaunted automotive sector has been a major source of the decline in our overall value-added industrial capacities during this decade.

The argument is often made that manufacturing must inevitably decline as a result of the transformation toward a "service economy," and that the loss of manufacturing jobs is being experienced broadly across other developed economies as well. That sounds like a doctor telling a patient not to worry about their disease, because everyone must die eventually anyway. Yes, there is a broad long-run declining trend in the proportion of total employment in manufacturing, largely because of superior productivity performance in manufacturing industries. But both the speed of this decline in Canada during this decade, and the fact that it is associated with a dramatic deterioration of Canada's manufacturing trade balance (indicating that we are no longer "pulling our weight" in global manufactures production) confirms that there is a much deeper problem in our manufacturing sector.

It is certainly true that services are becoming more important as a share of total employment and GDP (although addressing the fundamental weakness in quality and productivity of many service jobs should be a central focus of government economic policy). But it would be very wrong to write off the manufacturing sector as "yesterday's" industry. Since the turn of this century, Canada's manufacturing sector has declined much more rapidly as a share of total employment (by a quarter) than comparable OECD economies. And within the context of the broad structural evolution of the economy, policy-makers should make strong efforts to preserve as much manufacturing activity as possible. For several important reasons, manufacturing makes a disproportionate contribution to our overall productivity and well-being.

- Manufactured goods are still essential to successful participation in global trade. Manufactured products account for 75 percent of total merchandise trade. A country must be able to participate successfully and competitively in global markets for manufactured goods, to support overall engagement with the global economy and avoid chronic balance of payments difficulties.
- Manufacturing industries demonstrate both higher productivity levels, and higher rates of productivity growth. On one hand, this implies ongoing negative pressure on manufacturing employment levels (unless demand for manufactured output is

growing fast enough to absorb higher-productivity labour without job losses, which does not consistently occur). On the other hand, it implies that manufacturing is especially important to national productivity performance. Economists have recognized for decades that a smaller manufacturing sector implies both lower average productivity and lower productivity growth in the broader economy. In our view, the sharp decline (both relative and absolute) in Canadian manufacturing is a crucial factor behind Canada's poor productivity performance this decade.

- Higher productivity allows manufacturing employers to pay incomes that are, on average, some 25 percent higher than in the rest of the economy. Manufacturing jobs are a crucial source of decently-paid, higher-quality work for working-class Canadians. They are important to maintaining decent income and employment opportunities in key communities (including newcomer Canadians).
- Manufacturing firms demonstrate much higher levels of commitment to R&D activity and other forms of innovation. As indicated in Figure 9, manufacturing accounts for well over half of all private-sector R&D spending in Canada (despite holding a much smaller share, only 15 percent, of national GDP). Hence, manufacturers devote a much higher share of GDP to R&D than resource or service producers. Again, the decline of Canadian manufacturing during this decade is a key factor behind the continuing poor R&D performance of Canadian business. All stakeholders have recognized the importance of R&D investments and other forms of innovative behaviour to long-run economic success; yet the rapid decline of Canadian manufacturing implies that Canada's record in this regard will get worse, not better, in the years to come. Minerals and energy firms enjoyed rapid growth in revenues and profits in this decade, yet reinvest a tiny smaller share of GDP back into innovation.
- The apparent decline in the relative share of manufacturing in total employment is somewhat misleading, as a result of the outsourcing of various supply and service functions which were once performed internally by manufacturing companies. Now most of this work is performed by separate firms, many of which are not classified as manufacturers. Hence their jobs are statistically transferred from manufacturing into other industries; but those jobs still depend on a vital and viable manufacturing sector for their continuing existence.

In our judgment, manufacturing still matters. There are unique, strategic reasons why a country should work deliberately to retain a viable, competitive manufacturing sector – with special emphasis on high-productivity, technology-intensive sectors (such as automotive products, aerospace, advanced electronics, life science products, and other high-value industries).

The Loonie: Consequence and Cause of Structural Regression

Beginning late in 2002, the Canadian currency began to rise dramatically against its U.S. counterpart. The dramatic run-up in the loonie is both a consequence, and a further cause, of the structural regression in Canada's economy that we have described above.

Currency traders have come to associate Canada's currency with global commodity prices (especially prices for oil and metallic minerals). The loonie has appreciated against the U.S. dollar by over 60 percent in the last five years. This has been the most dramatic appreciation over this time of any of the ten largest exporters to the U.S. (see Figure 10). The rise in Canada's dollar against the U.S. dollar has been almost three times as large as the overall global decline in the value of the U.S. dollar (measured against the broad basket of global currencies). This suggests that *most* of the upward pressure on the loonie reflects unique factors in Canada's economy and policy, not the general, global weakness in the U.S. currency. Operating in competitive global markets, no producer could tolerate a 60 percent erosion of its competitiveness without experiencing dramatic and painful consequences – and Canada is no exception.

Some other currencies (including the Euro, and the Australian and New Zealand dollars) have also appreciated rapidly against the U.S. dollar. Yet unlike Canada, those countries are not significantly dependent on the U.S. market for their prosperity. (Euro-zone exports to the U.S. equal about 4 percent of GDP, and Australian and New Zealand exports to the U.S. equal about 3 percent of GDP. Canada's exports to the U.S., in contrast, equal almost 30 percent of our GDP.) Canada is unique in that we are *both* heavily dependent on exports to the U.S., yet our currency has been allowed to appreciate dramatically. Other countries which depend relatively heavily on exports to the U.S., including Mexico, China, and Japan, have enjoyed more stable exchange rates versus the U.S. dollar – in part as a result of deliberate government efforts to manage exchange rate fluctuations. Canada's unique vulnerability in this regard can be highlighted by weighting each country's appreciation (since 2002) against the U.S. dollar, by its share of GDP dependent on exports to the U.S. market. This index of vulnerability to currency appreciation is illustrated in Figure 11: Canada is far and away the most vulnerable to recent currency fluctuations, thanks to the combination of our dependence on exports to the U.S. and our policy-makers' willingness to tolerate very rapid appreciation.

The skyrocketing dollar has contributed to a terrible downturn in investment, production, and employment in Canadian manufacturing, exacerbating other challenges facing our value-added industries (such as competition from China, one-way trade relationships with countries like Japan and Korea, the restructuring of the North American auto industry, and other factors).

Canada's dollar clearly rises and falls on financial markets in line with changes in global minerals prices (especially the price of oil). This correlation has clearly strengthened since 1999 – perhaps as a result of the reduction in investor concerns regarding Canadian public debt levels, Quebec separatism, and other factors. But is the judgment of currency traders that the loonie is now a “petro-currency” really justified by Canada's economic

fundamentals? And if so, how are the links between global oil prices (and, to a lesser extent, other minerals prices) and the value of our dollar concretely experienced? This chain of causation is seldom described in any detail; rather, it is taken for granted that if the price of oil goes up, then the Canadian dollar should also go up.

Oil and gas production accounts for just 2 percent of Canada's GDP (and in real terms, that share has *declined* during the current boom). The oil and gas industry directly employs just 0.3 percent of all Canadian workers. Canada's oil and gas exports accounted for only 12.6 percent of our total exports in 2006 (most recent data available). Our oil and gas exports (worth \$66 billion in 2006) are still smaller than our automotive exports (\$75 billion). Moreover, over 60 percent of the value of Canadian oil exports is offset by imports of oil to eastern Canada. Hence our *net* petroleum exports (after deducting imported oil) are much smaller: \$14.6 billion in 2006, or just 1 percent of our GDP. With net exports equal to a single percentage point of GDP, it seems unjustified to conclude that Canada's entire national economy now depends on the course of oil prices – and just as wrong to assume that the future of the oil and gas industry is essential to our future national prosperity. What about the other 99 percent of our GDP?

Why, then, have higher oil prices (and, to a lesser extent, other minerals prices such as nickel and aluminum) translated so directly and obviously into an overvalued Canadian currency? The answer to this question will be important in informing policy responses to the appreciating dollar.

The upward pressure on the dollar clearly does not result from a resource-driven improvement in Canada's trade balance. In fact, our trade balance has deteriorated markedly with the rising loonie: a flood of lower-cost imports is more than offsetting the rising value of our resource exports. As indicated in Figure 12, our overall current account balance has declined by about three-quarters (as a portion of GDP) since 2000. Our merchandise trade balance has deteriorated by half (or about \$9 billion per year) during the same time. Our non-energy trade balance is now in the red: a deficit of \$4 billion in 2006, compared to a non-energy trade surplus of over \$30 billion in 2001 (Figure 13). It is only the inflated prices received for our oil exports that subsidize – for now, anyway – this growing deficit in all our other international commerce.

It is doubtful that the loonie's rise reflect a real inflow of new foreign investment aimed at developing our oil sands, mines, and other resource facilities. Until 2007, more foreign direct investment (FDI) was leaving Canada than entering it. This has changed as a result of a recent spate of foreign takeovers of Canadian resource companies (worth more than \$100 billion in 2007). But this development has hardly enhanced our real economic potential, or boosted real investment spending. Simply transferring ownership of existing resource assets and facilities from Canadian owners to foreign owners in itself does nothing to improve our productive capacities as an economy (yet it carries important costs, including a continuing obligation to pay profit and interest back to foreign owners). As noted earlier, the real expansion of resource industries has been surprisingly unremarkable; real foreign capital inflows aimed at financing that expansion cannot be the cause of the dramatic appreciation of our currency.

We suspect that the link between oil prices and the loonie has been felt mostly through corporate profitability and financial channels. Canadian resource companies have collected immense, unprecedented profits as a result of the global commodity price boom. Led by these resource profits, the overall profitability of Canadian business has increased dramatically, with corporate profits reaching record levels (as a share of total GDP). As indicated in Figure 14, the pre-tax corporate profit share of GDP has almost tripled since the early 1990s, and is now half-again as high as its average long-term postwar level. Moreover, that pre-tax data actually understates the improvement in bottom-line profits, which have been further amplified by steep cuts in corporate income taxes. Indeed, Canadian businesses are now more profitable (again, measured by the profit share in GDP) than American businesses (see Figure 15). Correspondingly, Canadian equity prices have soared (outstripping U.S. equity prices, as proxied by the relative levels of stock market indices in Toronto and New York). Rising equity valuations attract interest from foreign financial investors. And, as indicated, many resource companies have been taken over completely by foreign companies. It is the resulting inflow of foreign *financial* capital, seeking to take advantage of the immense profitability of Canadian resource production, that has driven up the dollar. The dollar's rise cannot be explained by the real trade balance, nor by an inflow of *real* foreign investment.

Canada's uniquely "hands-off" approach to foreign direct investment is clearly a key ingredient in this chain of causation. Canada is probably the oil major oil exporting country in the world which imposes virtually no restrictions on foreign ownership or takeover of petroleum reserves and facilities. At current global oil prices, Canada's oil sands hold recoverable reserves of close to 200 billion barrels of synthetic oil. Producers can earn a gross profit of well over \$50 on each barrel, implying that the resource represents an incredible sum of future undiscounted potential profit (again, at current prices) equal to something alike \$10 trillion. Even discounted for production times, the incredible wealth which is accessible virtually without regulation to foreign investors has clearly contributed to the rising value of Canadian business assets (and hence to the rising value of our currency).

The monetary policy actions of the Canadian central bank have reinforced the rise of the dollar. The Bank of Canada has adopted a narrow and aggressive interpretation of its mandate to target domestic inflation at or near 2 percent per year, neglecting other factors (such as our overall international competitiveness and the international value of our money) that are just as relevant to our long-run prosperity. They have increased Canadian interest rates relative to U.S. levels even as the Canadian dollar soared. Interest rate differentials are a well-known determinant of the exchange rate. We recommend a change in the direction of monetary policy in Canada, to allow the Bank to more flexibly respond to financial and economic developments (including inflation, unemployment, the exchange rate, and competitiveness). However, the dramatic appreciation of the Canadian dollar since 2002 reflects the resource boom and the structural shift in Canada's economy, more than the impact of monetary policy alone.

This analysis suggests that measures aimed at regulating both the profitability of resource extraction, and the foreign takeover of Canadian resource companies, would have a powerful impact in limiting upward pressure on the Canadian currency during the resource boom (however long that boom lasts).

Profits, the Dollar, and Business Investment Performance

It has been claimed that a higher dollar will spur Canadian productivity growth by removing the “artificial” protection once afforded to Canadian-based producers by our undervalued currency. There is no empirical evidence for this “tough love” theory. Overall business fixed investment spending, measured as a share of GDP, has been stagnant during the current oil-driven expansion – despite the massive amounts invested in new oil sands projects. (This implies that *non-energy* business investment has declined relative to GDP.) As illustrated in Figure 16, massive oil and gas investments have become increasingly important in total private capital spending: the oil and gas share of private investment has more than tripled since the early 1990s, and that single industry now accounts for close to one-fifth of all business investment in Canada. Excluding oil and gas projects, however, business investment has *declined* in Canada since the late 1990s.

Machinery and equipment investment, which most economists consider to be especially crucial to productivity growth and innovative capacities, has also declined by about one-quarter as a share of GDP since the late 1990s (from around 8% of GDP to just 6% of GDP). While imported equipment may be more affordable (in Canadian dollar terms), the overvalued currency dramatically undermines the reason for locating that equipment in Canada in the first place. Modern global producers (whether they are Canadian or foreign-owned) enjoy immense leeway in determining the location of their facilities, and so the fact that imported capital equipment “looks” cheaper in Canadian-dollar terms has little relevance to their investment location decisions.

In this regard, it is important to be careful about exactly how investment spending is measured. Some commentators have argued recently that Canadian business investment spending is in fact stronger than it “looks.” They utilize a measure of “real” investment spending, in which the nominal value of business investment (especially machinery and equipment) is adjusted by an index of capital equipment prices. According to this index, real business investment spending has expanded dramatically in the current decade – even in hard-hit sectors like manufacturing. The price index for machinery and equipment has declined in recent years, for two main reasons: the rising Canadian dollar, and the impact of rapid technological change in the computer industry. But there are well-known statistical difficulties with capturing quality effects in the computer industry in price deflators.² Similarly, it is not entirely clear that exchange-rate-related savings on

² These difficulties arise mostly because of the dramatic improvements in computing capacity which are attained with each new generation of processing equipment; this reduces the apparent “price” of a given unit of computing capacity dramatically – although it would be a mistake to conclude from this that the prices of computers and computer-related equipment, in a more general sense, have actually declined.

imported capital equipment have indeed been fully passed on to Canadian purchasers of that equipment (in the same way as consumers have not benefited nearly proportionately from exchange rate savings on imported consumer goods). The assumption that capital prices have declined (as implied by the investment goods deflator) is questionable; even more questionable is to then conclude that the “real investment effort” associated with a certain nominal sum of investment spending has grown. If investment spending was truly expanding, Canadian firms would be experiencing a significant boost in productivity (which has not occurred), and capacity utilization rates would be much lower than reported.

The weakness of business investment spending is especially visible in contrast to the record profit performance of Canadian businesses. Indeed, Canadian businesses have been entirely lackluster in their commitment to reinvesting record profits in the further expansion of their own facilities and activities here. The share of pre-tax corporate profits in GDP is now higher, as a share of GDP, than at any time in the history of Canada’s national accounts system. Meanwhile, Figure 17 plots real business fixed investment in Canada, measured as a share of corporate cash flow (including depreciation allowances). Business profits have skyrocketed, yet business investment has declined as a share of disposable cash flow. For the first time in postwar history, Canadian companies are reinvesting well under 100 percent of their available cash flow on a sustained basis;³ these surplus funds have been used to pay off corporate debt, finance overpriced corporate acquisitions, engage in financial speculation, or simply left to pile up in unprecedented hoards of corporate cash. It is worth noting that while Canadian businesses are now more profitable than U.S. businesses, U.S. businesses reinvest a larger share of their profits in new capital projects than Canadian businesses.

The failure of Canadian businesses to reinvest their record profits in new projects in Canada’s economy must be seen as a historic economic failure. Canada is squandering a one-time windfall of resource rents to subsidize corporate profits and financial accumulation. These record profits, reinforced by corporate income tax cuts, are making surprisingly little contribution to our longer-term economic development. Further business tax cuts, in an environment when Canadian businesses already have more disposable cash flow than they know what to do with, will have no impact on our sluggish investment and productivity performance. Indeed, to the extent that the appreciation of the Canadian dollar reflects (as argued above) the dramatic improvements in Canadian business profits (relative to the U.S. and other countries, and relative to past Canadian experience), then corporate income tax cuts can be *counter-productive* to investment spending – since they will spur a further appreciation of the Canadian currency, and further undermine the global cost competitiveness of Canadian-based facilities). At any rate, the emphasis on corporate income tax cuts will certainly reinforce the private sector’s recent emphasis on lucrative resource-oriented projects.

³ In a growing economy businesses will normally invest *over* 100% of available cash flow in new investment projects; the difference between cash flow and investment is then made up with new borrowing or equity issues.

A clear symptom of this pattern of business underinvestment is the oft-discussed and lamentable stagnation of Canadian productivity levels. There is a clear and logical empirical connection between business investment and labour productivity. Business spending on machinery and equipment in particular has been found by economists to be especially correlated with productivity growth. Canada's lackluster business investment (again, in startling contrast to spectacular corporate profitability) has been a major factor behind Canada's continuing poor productivity performance. Labour productivity growth has slowed notably in this decade, compared to earlier periods (Figure 18). The structural shift in our economy (away from manufacturing, and toward lower-productivity non-tradable services), along with poor business fixed investment performance, explain much of this stagnation.

Indeed, the resource boom is directly contributing to this poor productivity record in another way. Productivity levels in Canadian energy and mining industries themselves are declining dramatically. Average productivity in these sectors is higher than for the overall economy, reflecting the capital-intensive nature of minerals production. But as indicated in Figure 19, average productivity in the broader minerals sector (including oil and gas) is declining rapidly – largely because high global prices have encouraged producers to develop increasingly marginal deposits and supplies, which require more effort to exploit. The overheated, chaotic state of the economy in northern Alberta is no doubt also contributing to the miserable productivity record of this sector. Average productivity (measured by real GDP per employee) has declined 20 percent in the broader minerals sector (including oil and gas) since 1999 – compared to an increase in overall productivity of 8 percent in the economy as a whole, and a stronger productivity improvement in manufacturing.

Oil and other minerals are incredibly valuable at this point in history on international markets. This has inspired profit-seeking companies to throw caution to the wind in an effort to harvest those resources as quickly as possible – while the “getting is good.” But the aggregate result is a vast waste of resources, and deteriorating productivity, that Canadians will sorely regret once the global commodity price boom has run its course.

Features of Services Production

Some commentators have suggested that the transition to a services-based economy is “inevitable,” in light of technology and globalization, and that the services sector actually constitutes the main source of future opportunity for Canada's economy. They point to high-income jobs in sectors such as information technology, finance, and other higher-value service sectors. Unfortunately, however, those positions constitute a small minority of services work. The bulk of jobs in private services industries consist of lower-productivity, low-paid positions that pay far less than average wages in the Canadian economy as a whole. In fact, these lower-wage sectors have been growing much faster than higher-income services occupations, so the overall composition of services employment is deteriorating over time, even as the broader services sector becomes increasingly dominant.

Table 1 summarizes the growth in total service-sector employment since 2002 – the year when the Canadian dollar began to appreciate, and the manufacturing sector began shedding jobs. Service sector employment is disaggregated into its component sub-sectors, grouped into three categories: high-wage private service sectors, low-wage private service sectors, and public services. Just over 3 million Canadians are employed in high-wage service industries (including finance, wholesale trade, transportation, and professional and business services); average incomes in these industries are about one-fifth higher than in the Canadian economy as a whole. Almost 4.5 million Canadians, meanwhile, work in low-wage private service sectors, earning an average of more than one-third *below* Canadian average incomes. This category includes the traditional “McJob” sectors: retail, hospitality, administration, and other services. For private services industries as a whole, average incomes equal 88 percent of the economy-wide average. Finally, some 3.3 million Canadians work in public services, earning incomes that are just slightly above the national average.

During the current services-led employment expansion, employment in low-wage private service industries has been growing twice as fast (by over 10 percent since 2002) as employment in high-wage private service industries (5 percent growth since 2002). Employment in public services has grown slightly faster (by 8.9 percent since 2002) than in private services industries as a whole (8.3 percent). The relatively rapid expansion of public sector employment over the last five years (as governments, particularly at the provincial level, have finally increased their support for health care, education, and other services after the fiscal restraint of the 1990s) has been very important in underpinning the overall quality of services employment. Nevertheless, the evidence is clear that the average quality of services jobs is deteriorating, not improving, even as the services sector accounts for a dominant, growing share of Canada’s economy. The poor productivity and R&D performance of the broader services sector gives rise to further concern over this brave new “services” economy.

The dominance of the services sector also carries important implications for Canada’s international economic relationships. Services are largely non-tradeable. Some specialized industries can sell their output to international markets. However, the overall engagement of Canada’s services sector with international markets remains marginal at best. The proportion of Canada’s total services output that is exported remains miniscule, at about 2 percent. And this export share of services production has *declined*, slowly but steadily, in this decade (Figure 20). The importance of services in total Canadian exports has not budged during the same time; services continue to account for about 13 percent of all Canadian exports of goods and services. This indicates that services exports have been hurt just as much by the rising Canadian dollar as Canada’s other non-resource exports. Hence, the overall importance of both goods and services exports is declining, as the economy is increasingly oriented toward non-tradeable services – as a consequence of the resource boom and the rising dollar. Finally, Canada’s services trade balance has also deteriorated markedly, further reflecting the negative impact of the high dollar on the

competitiveness of Canadian service producers (Figure 21). The dollar-driven deterioration in Canada's tourism industry (with fewer foreign visitors coming to Canada, and more Canadians choosing to spend their vacations in other countries) is a key factor behind this negative development.

This evidence indicates conclusively that the growth of services production is certainly no panacea for the decline of manufacturing. In general, services jobs reflect lower-than-average productivity and income levels. Moreover, the average quality of services jobs (relative to overall average employment) is declining, since low-wage services occupations are increasing faster than high-wage sectors. Services exports remain very small as a share of total services production, and our trade balance in services is both negative and deteriorating.

About one-third of CAW members work in services occupations – both private and public. Services industries make a crucial and increasingly important contribution to our overall economic performance. Efforts to regulate the quality of service jobs (through unionization, stronger labour standards, and other measures), to enhance the quality and productivity of work (including through capital investment and innovation), and to value services jobs as genuine careers rather than ghettos of lousy work, will all be needed to allow Canadians to reap the full potential benefit of high-quality services industries. Left on their own, however, private services industries are clearly not filling the void of productive, quality work that is being left by the rapid erosion of manufacturing. It will take deliberate government action to foster the creation of better service jobs: better productivity, better incomes, and a better contribution to Canada's international trade performance.

Policy Implications and Recommendations

Let us briefly summarize the overall economic trends which we have described in this submission. Since the turn of this century, Canada's economy has been restructured as a result of unprecedented increases in global prices for our mineral resources (especially oil). Record global prices have generated windfall profits for resource producers. This in turn has stimulated massive investments in mineral projects (especially oil), but only a modest increase in real output from those industries. Thanks mostly to the higher *value* of resource exports (rather than increases in export *quantities*), unprocessed or barely-processed resource products now account for almost 60 percent of all Canadian merchandise exports (compared to barely 40 percent at the turn of the century). The major shift in real output and employment has not been from manufacturing to resources, however, but rather from manufacturing to services (especially private services). Those service jobs demonstrate lower productivity and incomes than the rest of the economy – and that performance is deteriorating, not improving. High equity valuations and foreign takeovers of Canadian firms have driven up the Canadian dollar (despite our deteriorating overall trade performance), and this has reinforced the decline of non-resource exports (including manufacturing, tourism, and other tradeable services). The shift in production away from manufacturing and toward private services (and, to a lesser degree, oil

production) has undermined Canada's already-poor productivity and R&D performance. In particular, productivity in the broader minerals industry (including oil and gas) is declining sharply. Canada's participation in international markets has also been harmed by the restructuring toward private services: the proportion of our GDP sold onto export markets has declined sharply during this time (from 45 percent in 2000 to 35 percent today). But our trade performance in services industries is very poor: under 2 percent of produced services are exported, and we import far more services than we export.

There are a range of important policy implications to this broad, mostly worrisome portrait we have painted of Canada's recent structural and qualitative economic development, that fall within the purview of this Competition Policy Review. We are concerned with the relative shift in our economic foundation toward non-renewable resource industries. We have highlighted the long-run consequences of the decline in manufacturing. The stagnation of business fixed investment is holding back Canada's qualitative development and productivity growth. The unsustainable appreciation of the Canadian currency is both a consequence and a cause of this backward structural evolution in our economy. The absolute and relative growth of services industries poses major challenges to productivity, income, and foreign trade performance.

In our view, a range of policy initiatives would help to address this emerging structural weakness, moderate our reliance on exports of non-renewable resources, and foster a more well-rounded and sustainable form of economic development.

- **Consciously act to slow the resource boom.** The windfall profits captured by resource producers as a result of record world commodity prices have had many broader economic effects – some positive, some negative. One effect has been a rapid expansion of investment spending in minerals production (especially the oil and gas industry). This investment boom has reinforced the rise of the Canadian dollar through a number of channels: the impact of rising costs in oil-producing regions on Canadian inflation (and hence interest rates), the equity-market valuation of Canadian resource companies, and foreign takeovers of Canadian resource companies. The gold-rush mentality of the investment boom in minerals (especially oil and gas), as companies outrace each other to develop massive new projects, is undermining productivity in the sector, and leading to very wasteful cost overruns. New investment projects in the oil and gas industry should be deliberately slowed. While much of the responsibility for managing resource projects obviously lies with provincial governments, the federal government also has the ability to play a role – through the more stringent application of environmental regulations, fiscal tools, and other measures.
- **Ensure that the Canadian people receive a larger share of windfall rents from the resource boom.** Profit rates in Canadian minerals production (again, especially in the oil and gas sector) are far above average levels experienced by Canadian businesses (measured both over history, and in contrast to other sectors today). For example, the Canadian oil and gas sector earned an average return on shareholders' equity of almost 20 percent in 2006 – twice as high as long-run average profit rates in

Canada. This indicates to us a failure of Canadian policy to capture a reasonable share of the one-time rents associated with the exploitation of non-renewable resources in the context of record global prices. There is no reason why the oil and gas sector, and other minerals producers more generally, should not be capable of facilitating the exploitation and sale of Canadian resources in return for profit rates comparable to those earned in other industries. Canadian governments must ensure that Canadians receive full value for the resources that they own. Again, provincial governments have the lead on this front, given their constitutional responsibility for natural resources. Oil-producing provinces should be encouraged to increase royalties. But the federal government can play a legitimate role, too – for example, through corporate tax rates. We recommend the establishment of differential profit rates for the oil and gas sector and other highly-lucrative minerals industries, either through higher statutory rates (for example, the reimposition of the former 28 percent corporate income tax rate in the oil and gas sector), or through the imposition of excess profits surtaxes. The basic corporate income tax rate on minerals production should be restored to 28 percent (the former rate that applied to the industry prior to the corporate income tax cuts that began in 2001).

- **More closely regulate foreign takeovers of Canadian companies.** Lured by record profits, foreign investors have purchased many important Canadian firms in this decade, especially major minerals and petroleum firms. Those takeovers have reinforced the destructive run-up of the Canadian currency. They have also undermined overall Canadian economic control, and will result in a long-run export of capital (through the repatriation of profits, interest, and dividends) that will further weaken our already-deteriorating current account balance. The CAW does not oppose foreign investment in general; many of Canada’s most productive and important industries were built with the assistance of foreign direct investment, and we should continue to seek more investment from companies which commit to enhancing the genuine capacity and capabilities of their Canadian operations. However, foreign takeovers which do nothing but transfer control of existing companies to foreign owners result in no benefits, and significant costs, for Canadians, and these takeovers should be discouraged through our regulatory system. Specifically, the current “net benefit” test under the *Investment Canada Act* should be replaced with a multi-part and more genuine net benefit test which is applied with broad input from community and other stakeholders. The new benefit test should take into consideration:
 - The impact of a takeover on innovation, value-added employment, and head office presence in Canada;
 - The impact on communities, with particular reference to remote and vulnerable communities;
 - Social responsibility to those who have a significant stake in the purchased company (including retirees);
 - Specific commitments by the purchasing company to the retention and expansion of Canadian value-added processing, manufacturing, and input facilities;

- The net benefits of these impacts must exceed the presumed negative effect of future financial obligations arising as a result of future profit and interest payments to the foreign owners.

In addition, the application of this new test should reflect a more open and transparent process than the current procedures. At present, affected workers and communities cannot even learn from Investment Canada whether reviews are being conducted of proposed takeovers, let alone have meaningful input into the evaluation of those takeovers. This existing process is secretive and anti-democratic, and should be reformed.

- **Actively manage the Canadian currency to offset the impacts of the resource boom.** The Bank of Canada should be instructed to take explicit account of the need to preserve international competitiveness of Canada’s economy, and the impact of currency fluctuations on investment decisions, in its interest-rate policies. This direction would be fully consistent with the bank’s official mandate, as specified in the *Bank of Canada Act*, to promote the general prosperity and monetary stability of the Canadian economy.
- **Actively foster business investment spending in non-resource sectors.** Corporate income tax cuts, with no strings attached, have had no visible impact whatsoever on real business investment spending, which has been stagnant as a share of GDP (and declining as a share of after-tax profits). Fiscal policies get much more bang for the buck if they directly reward real business investment, instead of “pushing on a string” – by further boosting corporate cash flow (which is already far in excess of real capital spending anyway). We recommend reimposing higher base corporate tax rates on business profit, while providing generous tax support for new investment spending (in the form of accelerated depreciation allowances for non-resource companies, a refundable investment tax credit, or other measures). This package of measures would be fiscally neutral, but would shift the burden of taxation within the business sector away from companies which are investing more in Canadian capital projects, and toward those firms which are merely “harvesting” profits here. Sector-specific investment and development initiatives (such as tailored investment supports in the auto industry, aerospace, and other crucial high-value industries) can also be important here.
- **Fair trade policies.** The future viability of Canada’s non-resource export industries is fundamentally threatened by imbalances in the current global trading system. Free trade rules provide incentives for countries to run up large, chronic trade surpluses to support domestic employment and investment opportunities – hence “exporting” their unemployment problems to other countries. Canada’s trade, especially outside of the NAFTA region, is marked by precarious imbalance – both in terms of the quantities of merchandise flowing in both directions, and the sectoral composition of those flows. We export natural resources to Europe and Asia, in return for huge and growing net imports of higher-value manufactured goods. Efforts to diversify Canadian exports to these regions through sales of manufactured goods (rather than

just natural resources) are stymied by aggressive trade interventions aimed at keeping those markets much more closed to imports than North America is. To support the future presence of higher-value, technology-intensive industry in this country, Canada's trade policy must "get real": the current faith in free trade at all costs, and commitment to "follow the rules" no matter how one-sided the real-world results, must be abandoned. The government should abandon its FTA negotiations with Korea. It should open discussions with Korea, Japan, and China aimed at redressing current trade imbalances and ensuring that high-value merchandise (not just our resources) flows in both directions; the fallback, in the event of a failure to stimulate significant Canadian manufacturing exports to these and similar jurisdictions, must be limits on foreign access to our own markets.

- **Invest in the quality of service sector work and productivity.** If the service sector is going to account for a growing share of total employment and production, then policy should make concerted efforts to generate higher-quality, more productive, and more tradeable service jobs. This involves investments in skills and training; sector-wide efforts to stimulate the development of key tradeable services (including tourism); and labour market regulations which require service sector employers to treat their labour inputs as a valuable input, rather than a just-in-time, throw-away resource.

These proposals will strike some as highly interventionist, and a departure from the emphasis in Canadian economic policy over the past two decades on liberalization, deregulation, and minimal government. However, the economic results of that direction have not been positive: stagnant productivity and real living standards, sluggish business investment (despite record profits), and a more recent backward evolution in Canada's industrial make-up. And it is clear to us that if this general *laissez faire* direction is maintained, then the trends which have become visible in this decade – growing reliance on resource exports, dramatic decline in manufacturing, unsustainable appreciation of the currency, and the dominance of low-productivity, non-tradeable services industries – will be reinforced, and Canada's future economic prospects will be handicapped accordingly. It is time for Canadians, and their policy-makers, to take a hard look at the long-run structural trends which are remaking our economy, with consequences that will last for decades. The work of this panel provides a welcome opportunity for that reflection.

Sources for all graphs and tables: CAW Research from Statistics Canada, U.S. Federal Reserve Board of Governors, Industry Canada Strategis, and World Bank.

Figure 1
Share of Unprocessed and Barely Processed Resource Products in Total Exports

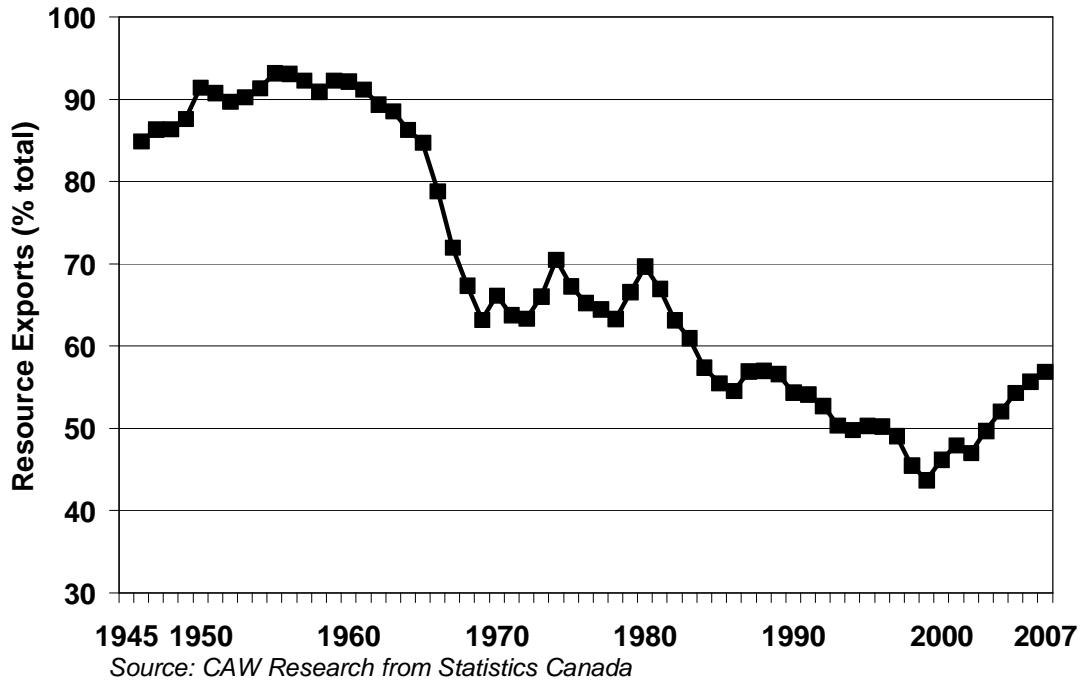


Figure 2
Change in Real GDP by Sector, 1999 to 2006

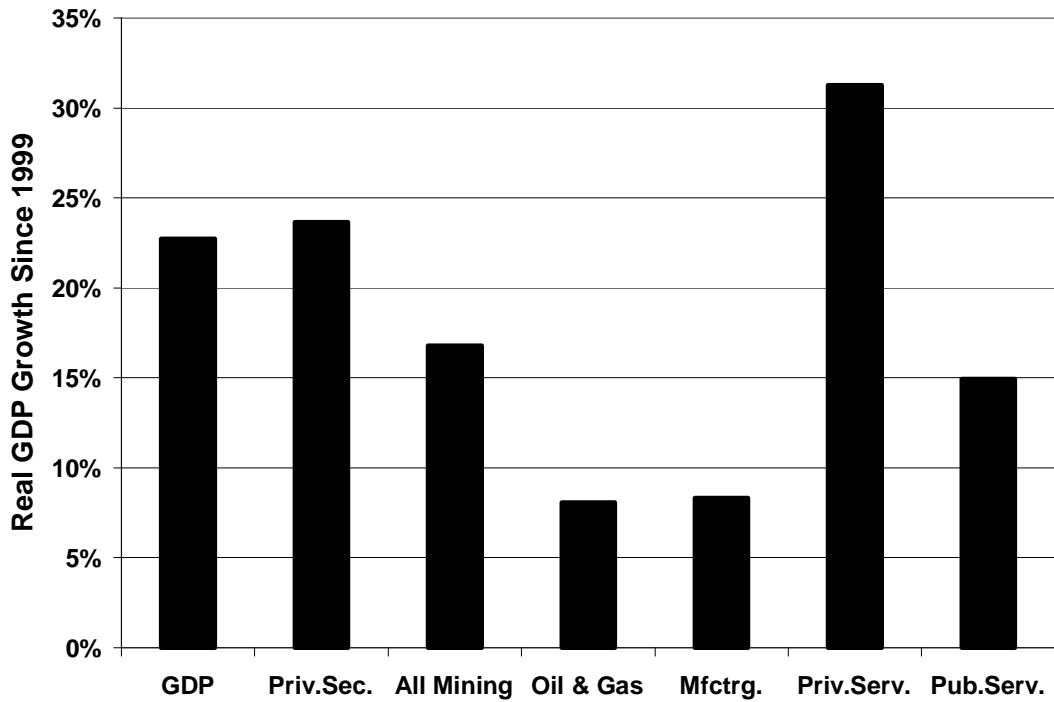


Figure 3
Change in Employment by Sector, 2002 to 2007

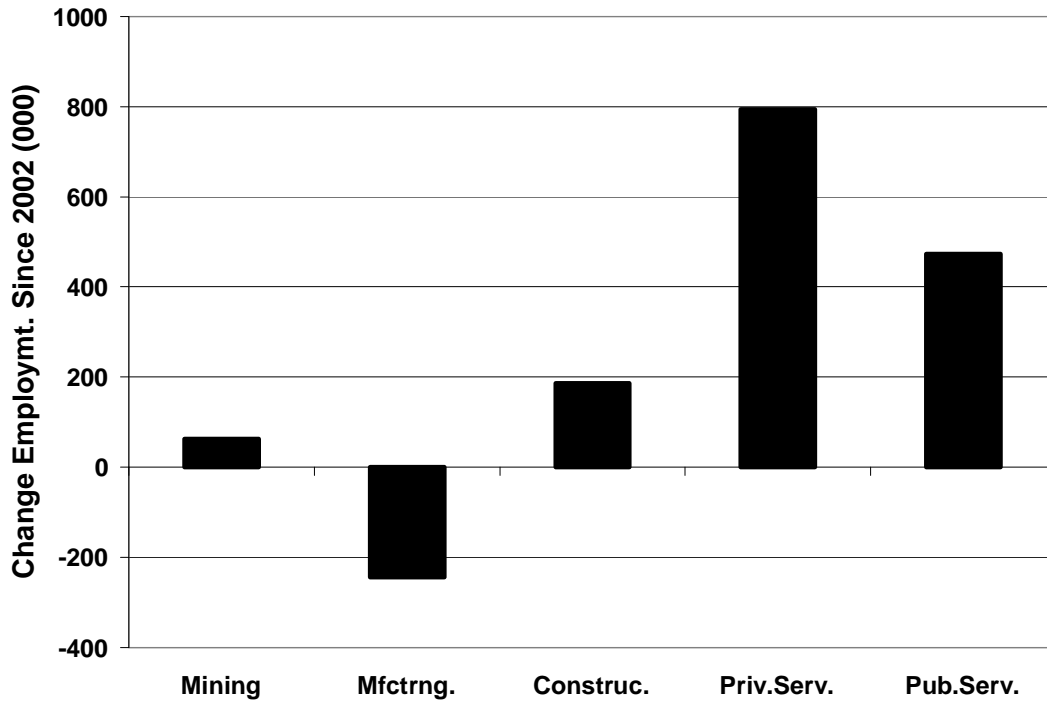


Figure 4
Sources of New Corporate Profit, 1999 through 2006

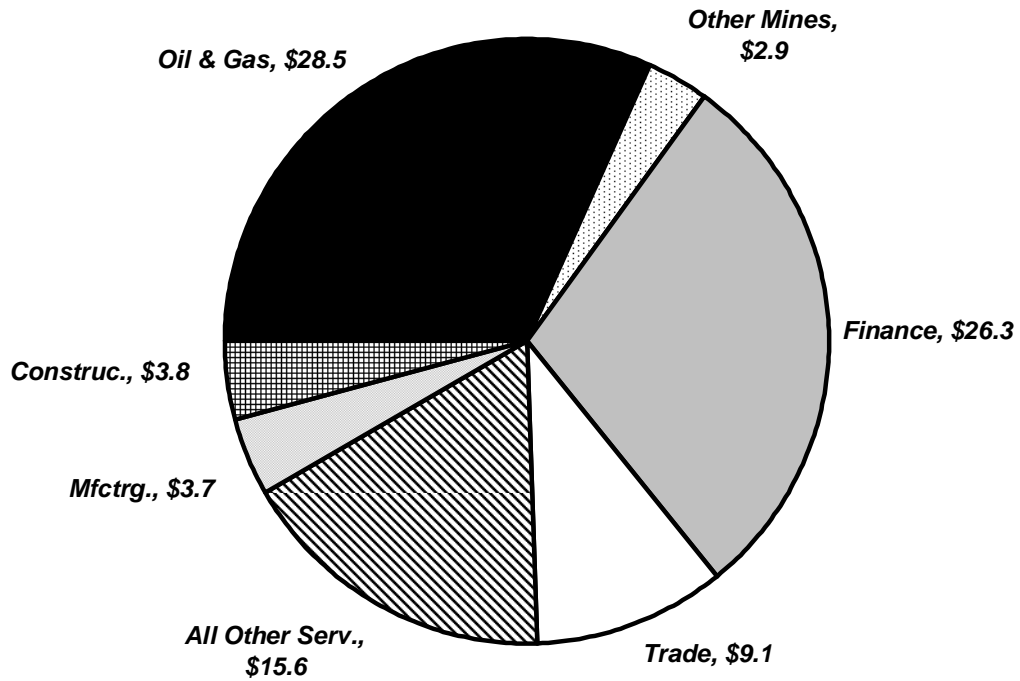


Figure 5
Total Goods and Services Exports as Share GDP

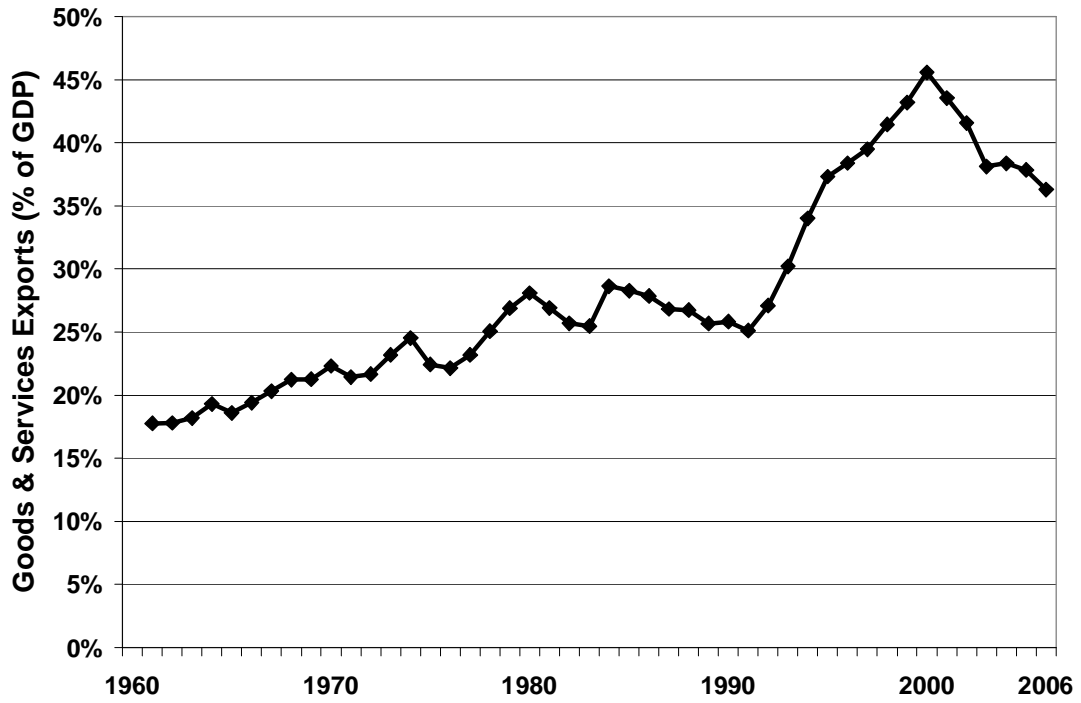


Figure 6
Manufacturing Trade Balance, 2000-2006

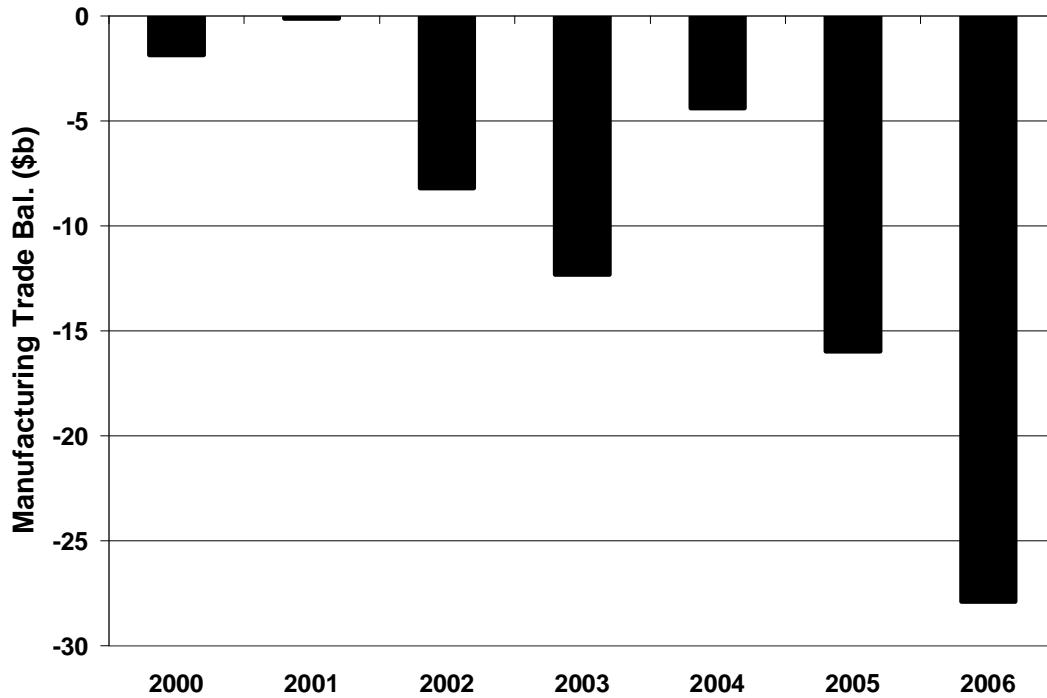


Figure 7
Manufacturing Share of Total Employment

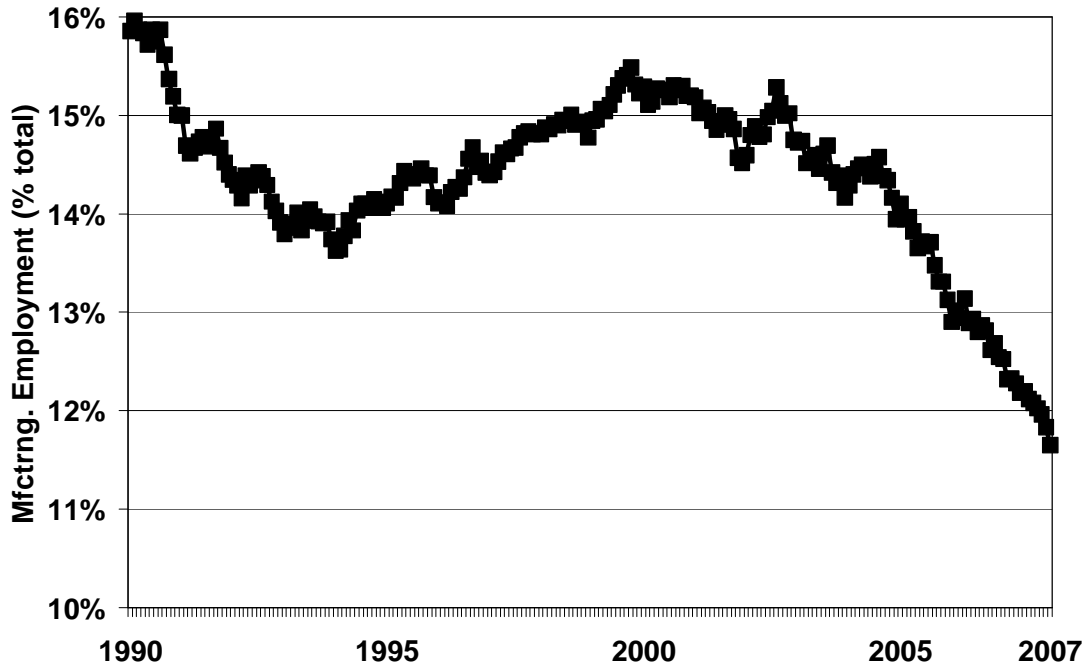


Figure 8
Automotive Trade Balance, 1999-2007

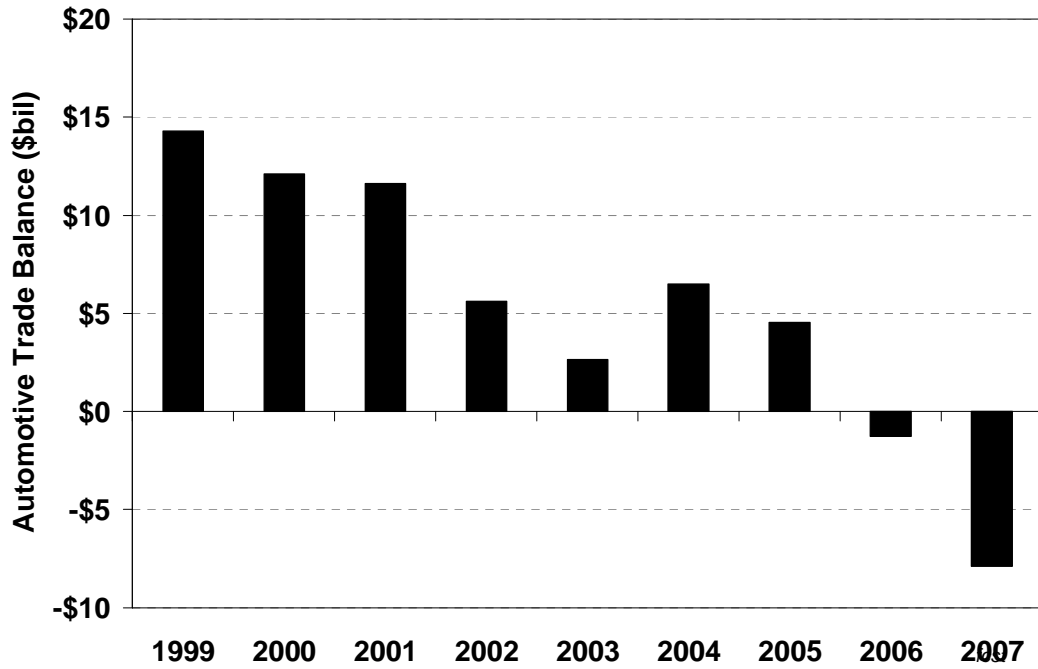


Figure 9
Business R&D Spending by Sector, 2006 (\$billion)

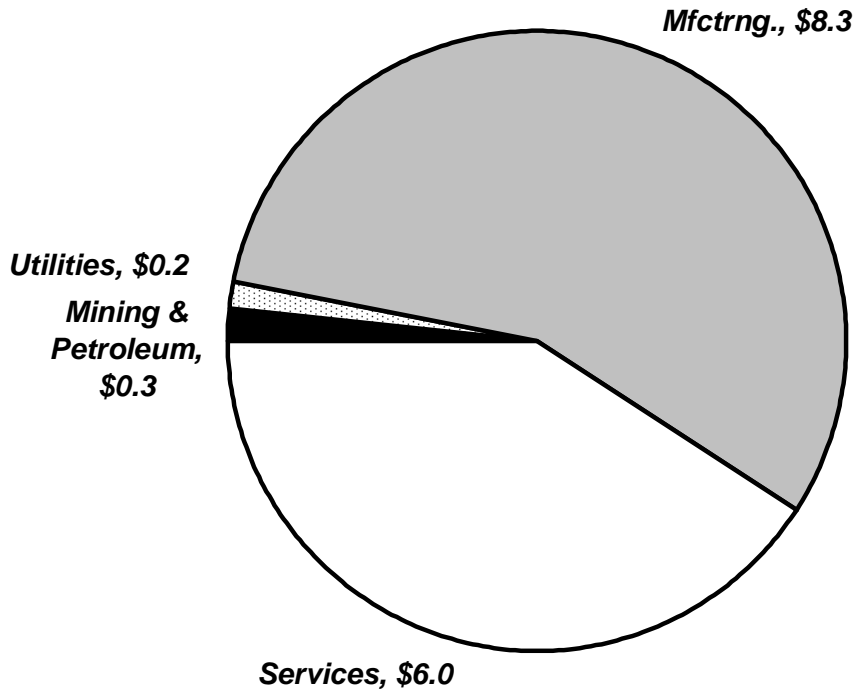
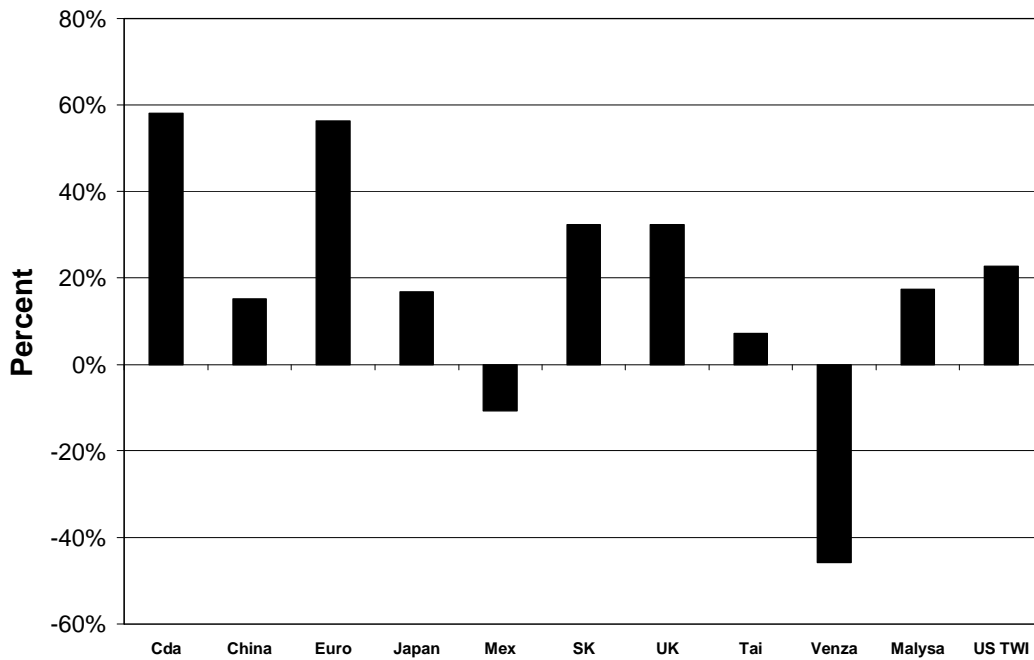


Figure 10
Major U.S. Trading Partners, Currency Appreciation Since 2002



2002 avg versus end-Jan 2008; TWI=decline in US trade-weighted exchange rate.

Figure 11
Index of Exchange Rate Vulnerability

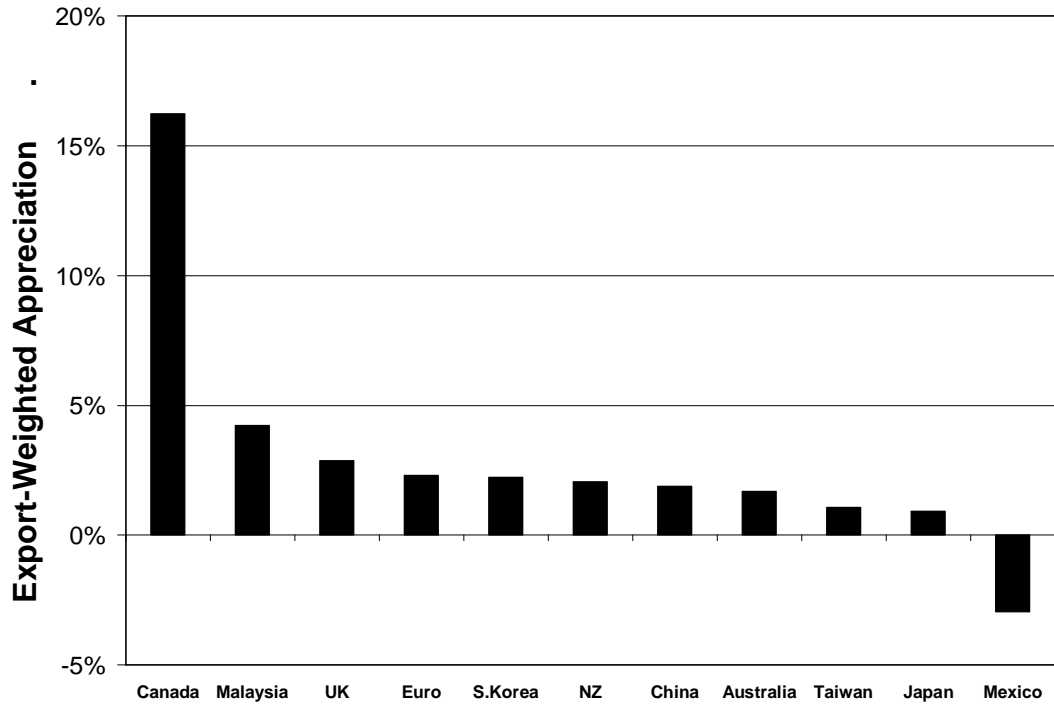


Figure 12
Current Account Balance, 2000-2006

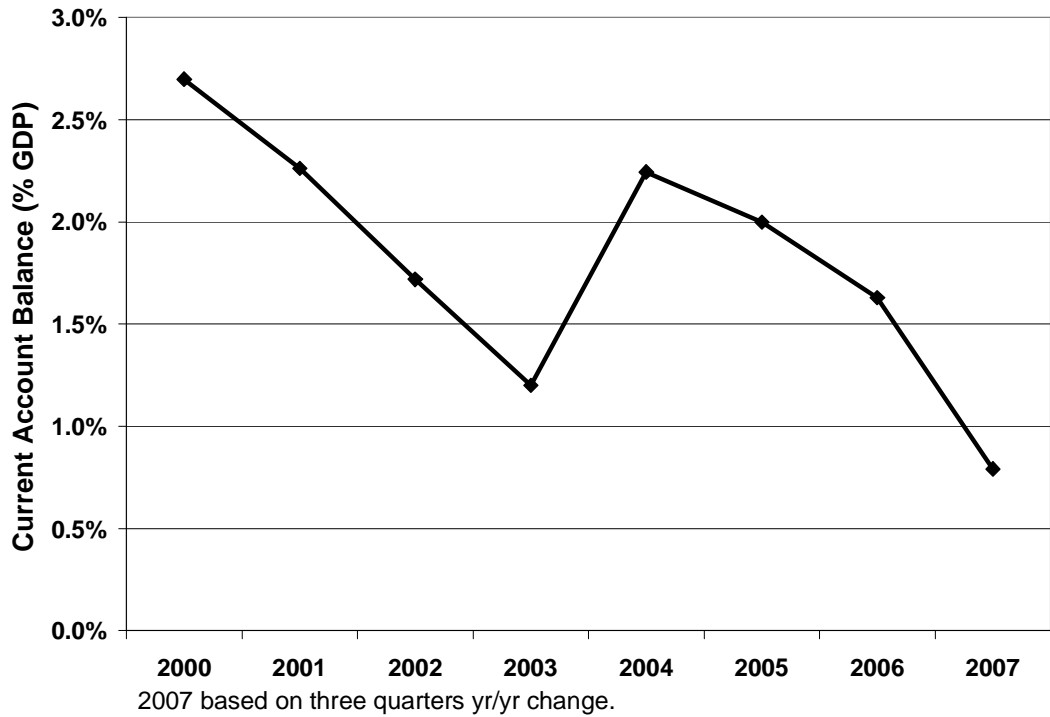


Figure 13
 Merchandise Trade Balance, Excluding Energy, 1995-2006

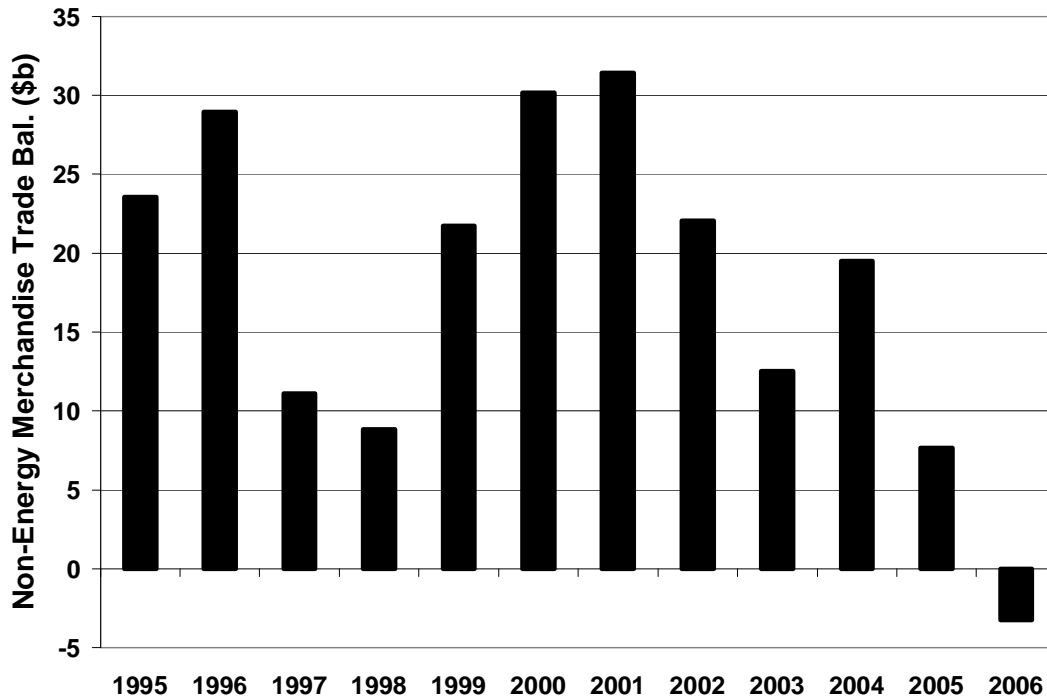


Figure 14
 Pre-Tax Corporate Profit Share, 1960-2006

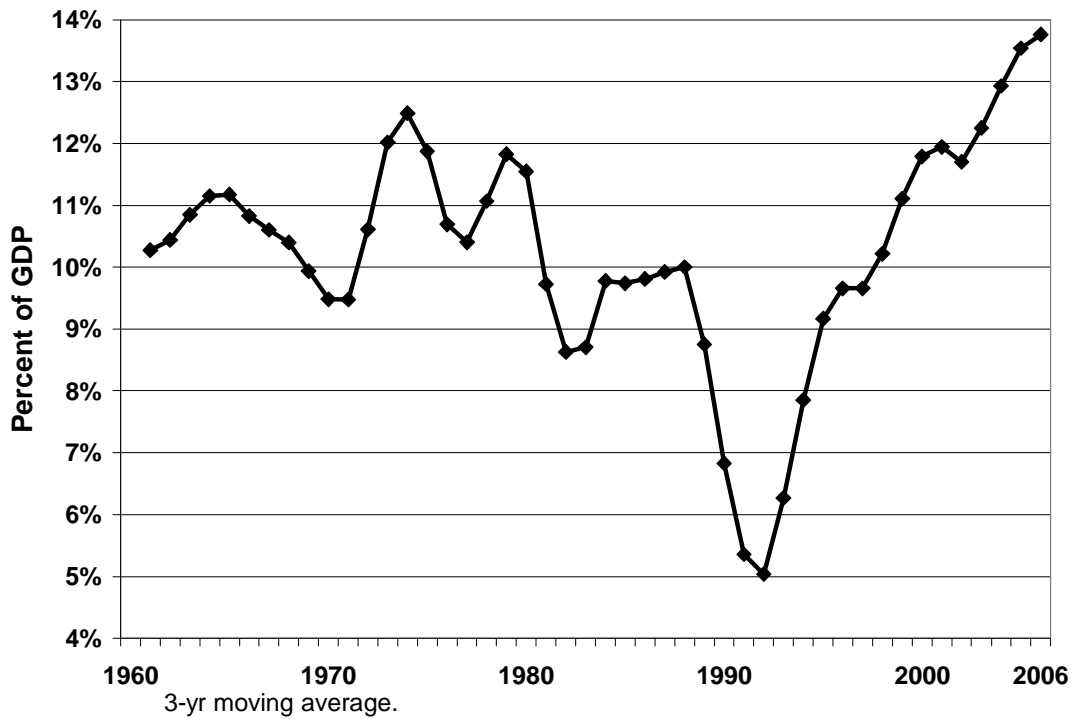


Figure 15
 Corporate Profits as Share GDP, Canada and U.S., 1990-2006

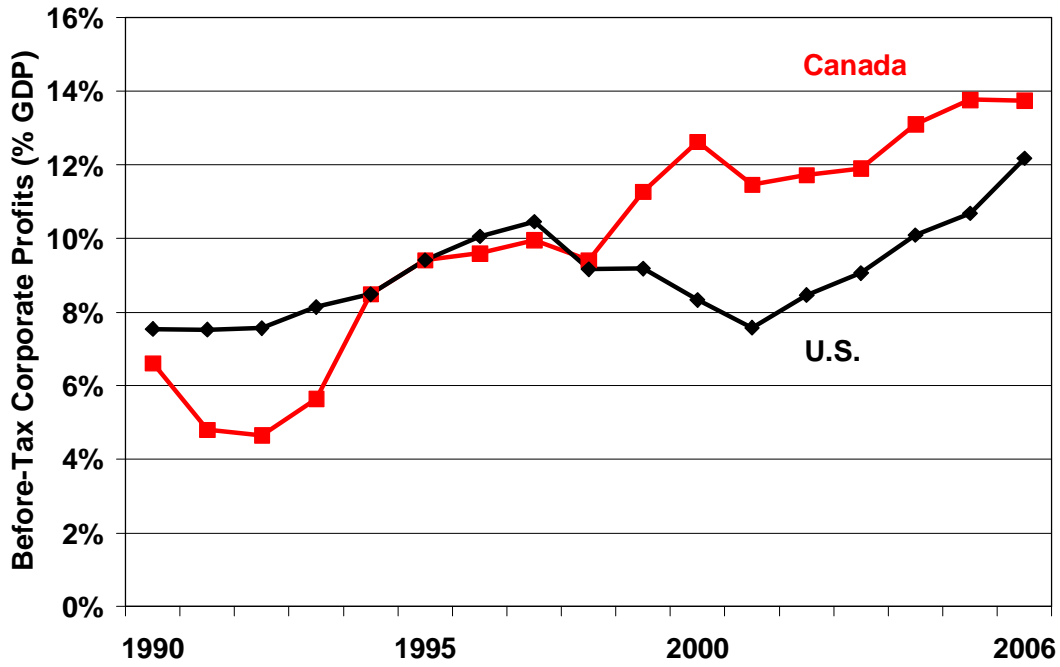


Figure 16
 Business Fixed Investment, Oil and Gas Sector and Other, 1991-2007

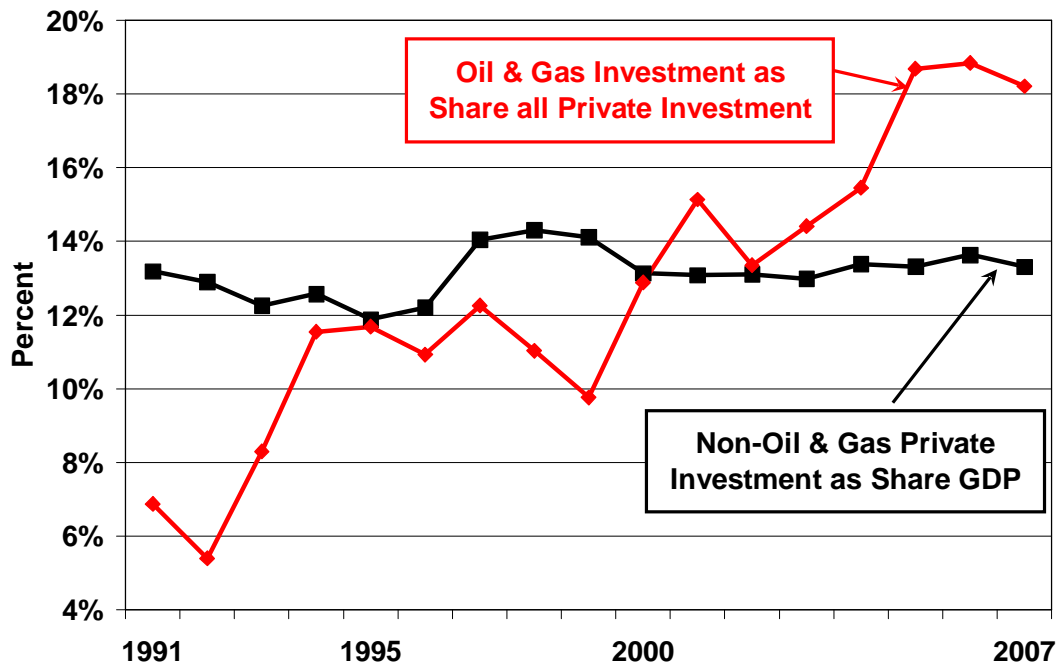


Figure 17
Re-Investment of Business Cash Flow, 1960-2006

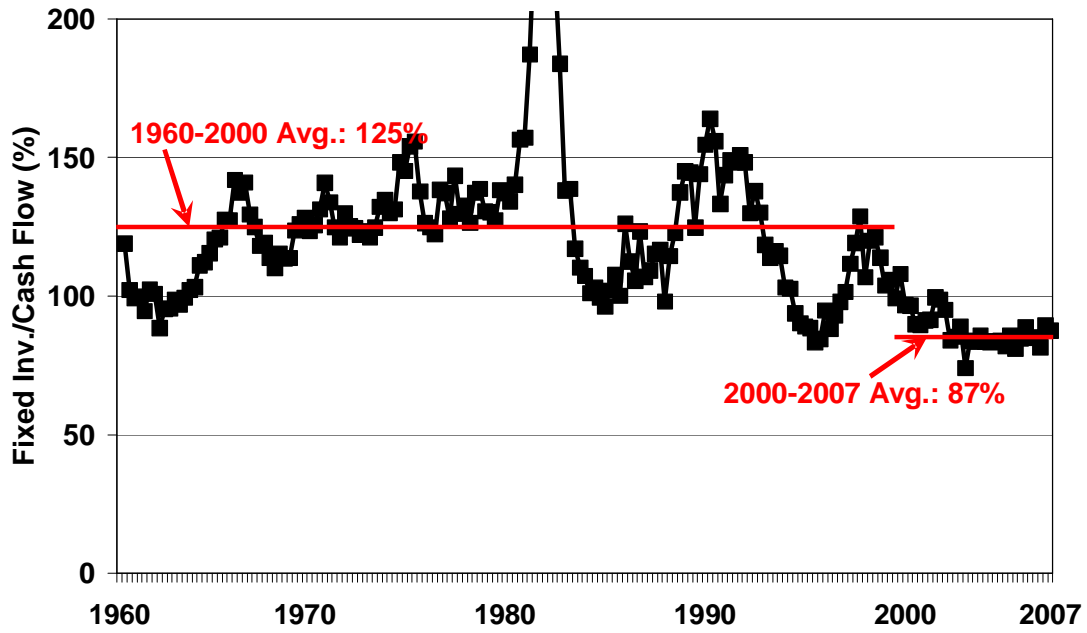


Figure 18
Labour Productivity Growth by Decade

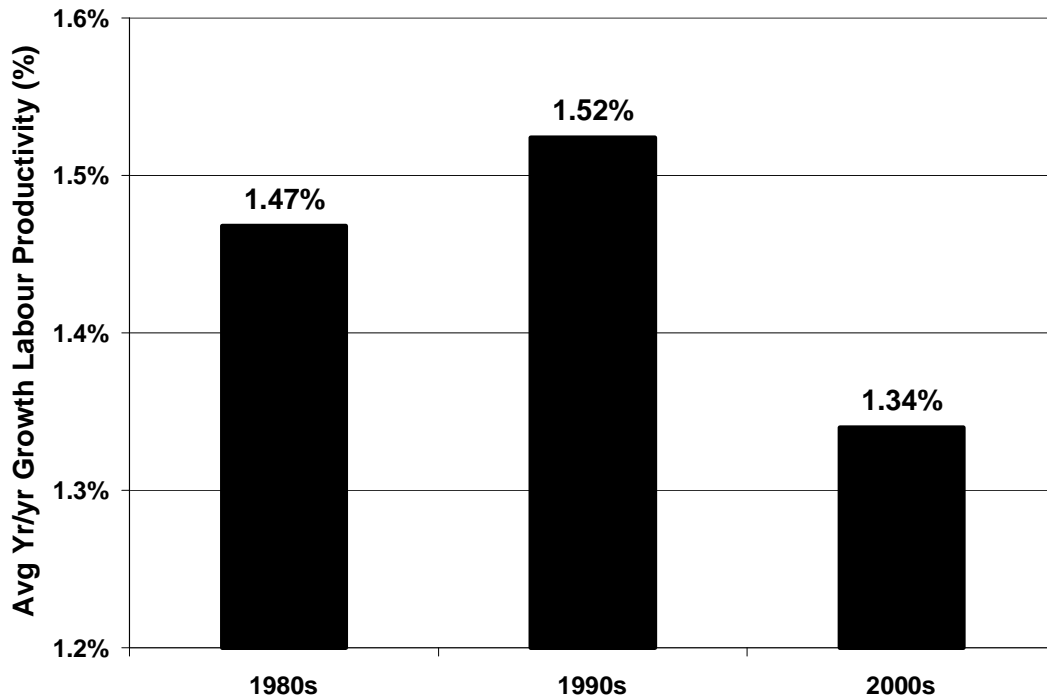


Figure 19
Productivity Trends by Broad Sector, 1997-2006

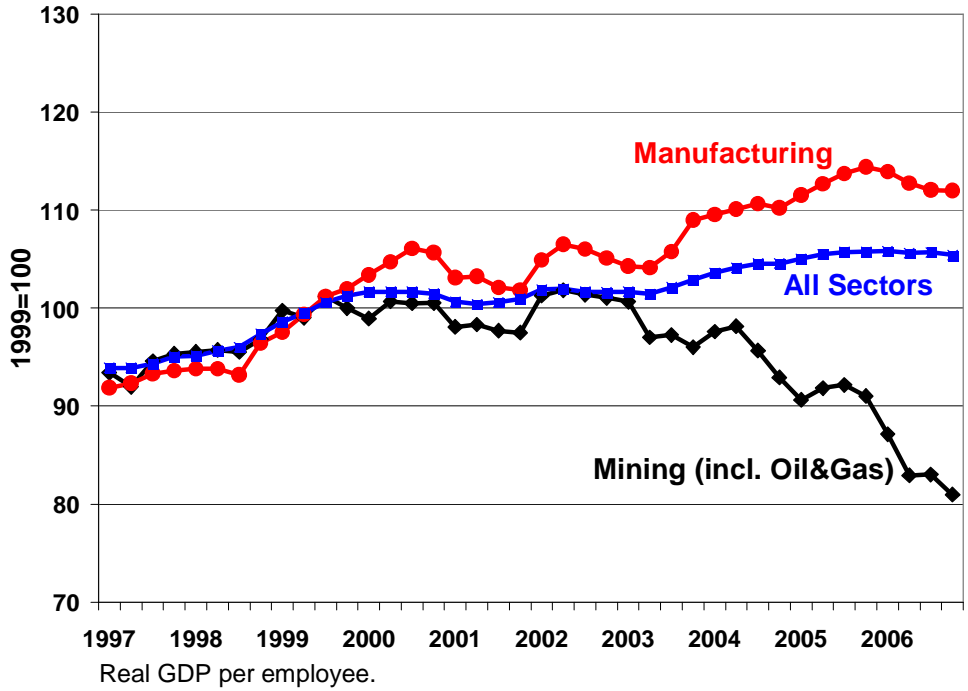


Figure 20
Services Sector Trade Indicators, 1997-2006



Figure 21
Services Sector Trade Balance, 1990-2007

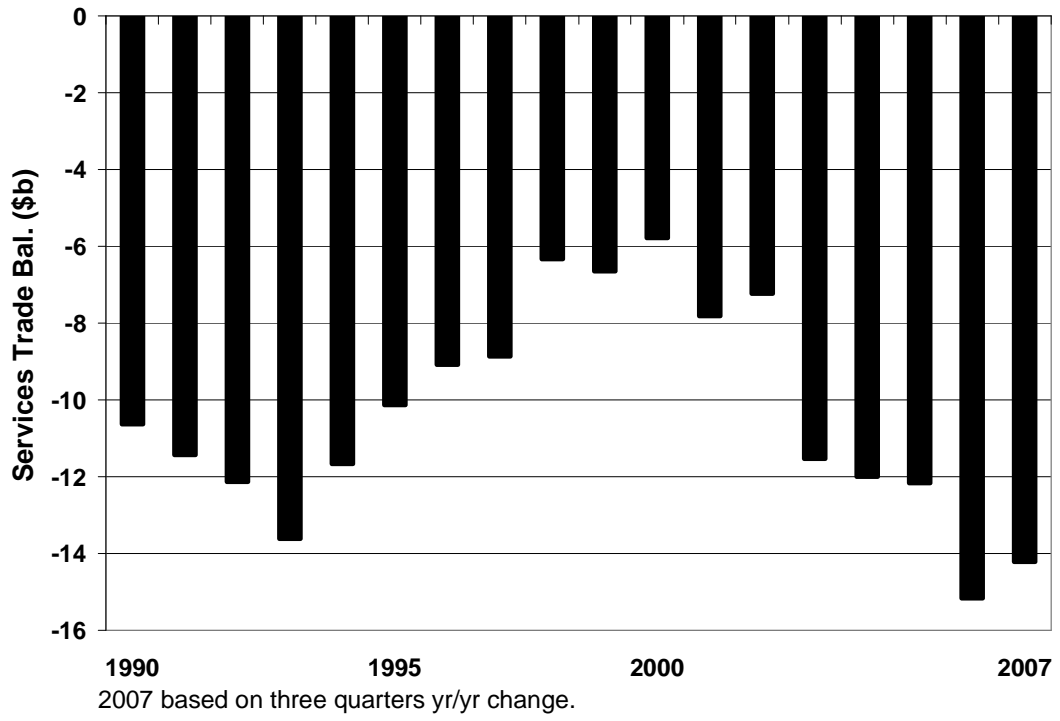


Table 1
Composition of Employment and Earnings
Services Industries, Canada, 2006

	Employment 2006	Change Since 2002	% Change Since 2002	Weekly Earnings 2006 (\$)	Share of Cdn. Average
Private: High-Wage					
Wholesale trade	739,728	17,116	2.4%	874.26	117%
Transportation and warehousing	633,516	19,306	3.1%	784.73	105%
Information and cultural industries	349,519	19,749	6.0%	933.13	125%
Finance and insurance	606,004	37,963	6.7%	964.93	129%
Professional, scientific, technical	704,909	63,219	9.9%	963.06	129%
Management of companies	97,914	8,723	9.8%	948.43	127%
Sub-Total	3,131,590	166,076	5.6%	902.57	121%
Private: Low-Wage					
Retail trade	1,715,114	173,618	11.3%	483.34	65%
Real estate and rental and leasing	245,725	23,456	10.6%	675.1	90%
Admin. & support, waste mgmt. etc.	697,745	129,734	22.8%	601.16	80%
Arts, entertainment and recreation	235,065	22,471	10.6%	436.62	58%
Accommodation and food services	1,007,532	41,440	4.3%	304.36	41%
Other services	513,532	21,436	4.4%	583.52	78%
Sub-Total	4,414,713	412,155	10.3%	480.95	64%
All Private, Sub-Total	7,546,303	578,231	8.3%	655.92	88%
Public					
Educational services	1,055,465	71,766	7.3%	813.02	109%
Health care and social assistance	1,438,707	130,420	10.0%	678.91	91%
Public administration	813,701	66,977	9.0%	930.85	125%
Sub-Total	3,307,873	269,163	8.9%	783.68	105%
TOTAL SERVICES	10,854,176	847,394	8.5%	694.85	93%

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