Canadian dollar falls to record low

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The Canadian dollar traded Thursday at fractionally higher levels than Wednesday's record low closing of 67.15 cents US. Many financial analysts anticipate, however, that the Canadian dollar will resume its slide--Wednesday was the fifth consecutive business day in which it fell to an all-time low against the US dollar--after the government releases trade figures for May this morning.

The Canadian dollar has declined in value by more than 5.5 percent since reaching its 1998 high of 71 cents in March. The decline has been triggered by the fall in commodity prices brought on by the East Asian financial crisis and, in recent weeks, by growing evidence that the Canadian economy is slowing. Statistics Canada reported earlier this week that manufacturing shipments fell in May by 1 percent, the second consecutive monthly decline. Total employment also fell in both May and June and housing starts declined by 4.6 percent from May to June.

In January, when the Canadian dollar crashed through the 70-cent US level for the first time in more than a decade, the central bank, the Bank of Canada, raised its trend-setting bank rate .5 percent to 5.5 percent. Thus far the Bank has resisted widespread calls for a further increase out of fear that a tightening of credit could exacerbate the economic slowdown. Indeed, as the assistant chief economist at the Bank of Montreal observed, 'the growing risk is that interest rates may need to be lowered' to stimulate economic activity and avert a slump.

Prime Minister Jean Chretien has essentially shrugged off the dollar crisis as a temporary phenomenon which has little to do with the intrinsic strength of the Canadian economy. Speaking to reporters July 14, he said the decline in the value of the dollar boosts certain sectors of the Canadian economy. He also claimed that the dollar is 'performing quite well in relation to other currencies.'

The Globe and Mail, Canada's leading business newspaper, was quick to take issue with Chretien's remarks. In an editorial entitled 'Mr. Chretien's funny money musings,' it pointed out that in 1998 the Canadian dollar has lost more than 3 percent of its value in relation to the British pound, Italian lira, German mark and French franc. Said the *Globe*, 'The Canadian dollar has fallen more against the U.S. dollar this year than any other G-7 currency except the Japanese yen--and Japan has been hit with an economic crisis of rare severity.'

Over the past quarter century the Canadian dollar has fallen from close to par with the US dollar to the point where a US dollar costs $1.50 Canadian. Unquestionably, during certain periods, particularly the slump of the early 1990s, important sections of Canadian capital favored devaluation as a means of capturing foreign markets. By letting the dollar slide, big business was able to erode workers' wages and living standards indirectly through inflation, rather than pay and benefit cuts.

This policy has also enjoyed the tacit support of the labor bureaucracy. Canadian Auto Workers union leaders, for example, have sought to attract production by boasting of lower labor costs vis-à-vis the US, a differential attributable to the difference in the values of the American and Canadian dollars and Canada's national health insurance scheme.

But many of the most powerful sections of the Canadian ruling class are angered by the long-term devaluation of their Canadian dollar assets. Writes the *Globe*: 'There is truth in the argument that a falling dollar helps exporters, but it means we are buying our place in world markets by cutting the price of our products. In a sense, we've been taking a big national pay cut. This should be acceptable only as a short-term way of competing in an international market. For years, we've been relying on it rather than productivity improvements that are the key to international competitiveness.'

In effect, the *Globe* is demanding that the Chretien government boost the value of the dollar by making Canada a more attractive place for Canadian and international capital. This is to be achieved by slashing social programs, reducing taxes on corporations and the rich, and by eliminating health and safety and other regulations that stand in the way of the maximization of profits.

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