Decline of US dollar roils Canada’s elite

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The US dollar’s sharp decline is causing concern in Canada’s economic and political elite. Since the beginning of the year, the Canadian dollar has risen more than 15 percent in value against the greenback, with two-thirds of that increase coming since early March. Tuesday, the dollar closed above 74 cents US for the first time since early 1997.

Several other currencies, most importantly the euro, have also appreciated significantly against the US dollar in recent months. But Canada’s economy is especially sensitive to fluctuations in the value of the US dollar. Exports to the US account for 85 percent of all Canada’s foreign trade and, even more significantly, represent a third of the country’s total economic output (GNP)

Canada’s business press is full of warnings that the surge in the Canadian dollar’s value is pricing Canadian exports out of the US market and will force a new round of plant closures and corporate restructuring. According to Merrill Lynch Canada economist Robert Spector, the dollar’s rise will be “a big drag on growth for the next six to eight quarters.” “Take my word for it,” said another Bay Street analyst, “it’s going to bite.”

Several observers have identified the 73-cent range as a “danger zone,” at which point most Canadian exporters’ production costs exceed those of their US competitors. Prominent among those campaigning for Canada’s Liberal government to take action to stem the dollar’s rise is Canadian Autoworkers President Buzz Hargrove. Writing in the *National Post*, the mouthpiece of the most rapacious sections of Canadian capital, Hargrove warned that the rise in the value of the dollar has eliminated “the average labor cost savings which manufacturers enjoy on their Canadian workers—due partly to lower wages and partly to public health care...” Hargrove’s remarks underscore that the union bureaucracy is acutely conscious of its role in ensuring corporate competitiveness and profitability and will respond to the crisis engendered by the Canadian dollar’s rise by deepening its collaboration with big business.

Given the massive trade and current accounts deficits that the US has incurred in recent years, a fall in the value of the US dollar was inevitable. What has spooked Canadian business is the rapidity of the fall and the fact that the Bush administration is encouraging it with no apparent concern for its impact on other countries and the international financial system.

“Economies can adjust to gradual movements over time,” Robert Sinche, head of global currency strategy at US-based Citigroup, told the *Globe and Mail*, “but probably cannot adjust as well to very volatile short-term movements. That’s clearly an issue here.”

Since 2001, the US Federal Reserve Board has repeatedly cut interest rates in the hopes of reviving US economic activity. Currently, the US bank rate is at a 41-year low of 1.25 percent. But US economic growth remains anemi,c and the US central bank has acknowledged that there is a danger, for the first time since the Great Depression, of the US economy falling into the grip of deflation.

By allowing the value of the US dollar to plummet, the Bush administration is hoping to provide a powerful stimulus to US exports. Unquestionably, Bush’s election prospects are also a factor in the increasingly desperate attempts of US authorities to kickstart the economy.

That the US is in effect trying to export its crisis to other countries through a sharp dollar devaluation is underscored by its indifference to coordinating a currency re-alignment with the other major capitalist powers. The dollar’s depreciation was not even mentioned in the communiqué issued at the end of last weekend’s meeting of the G-8 Finance Ministers.

To date, Canada’s Liberal government has said little about the Canadian dollar’s rise, and done less. The

Bank of Canada's trend-setting bank rate is 2 percent higher than the US Federal Reserve Board's, but inflation in Canada is also significantly higher.

In recent years, powerful sections of Canadian big business have sharply attacked the Liberal government for not resisting the Canadian dollar's depreciation. (In January 2002, the Canadian dollar fell to an all-time low of 61.75 cents US.) They have alleged that Ottawa's "weak dollar" policy enabled Canadian exporters to avoid having to make "tough choices" to lower production costs—like slashing wages and jobs—while facilitating "cheap" foreign takeovers of Canadian companies.

Finance Minster John Manley appeared to endorse this view last year when he complained that "too many Canadian firms are profiting mightily from a US 62-cent dollar and would be hard-pressed to compete at a US 80-cent dollar."

An editorial in this Tuesday's *National Post* called on the federal government to assist Canadian manufacturers in competing against their US rivals by intensifying the assault against the working class. It explicitly demanded further corporate tax cuts and deregulation, and implicitly urged further cuts to public and social services as well as the gutting of labor and environmental standards.