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## NEWS RELEASE

### ***Subsidies to auto sector should come with wage concessions***

**Montreal** – While the one-time bailout of GM Canada and Chrysler Canada in 2009 was successful, ongoing subsidies to the auto sector must be reassessed, especially in times of fiscal restraint, according to a new study from the Institute for Research on Public Policy (IRPP).

The study, *Bailouts and Subsidies: The Economics of Assisting the Automotive Sector in Canada*, explores the economic rationale for industry subsidies and whether they are a cost-effective way to foster economic development in Canada's auto sector.

“Although Canada has fared relatively well in recovering from the recession of 2008-09, it is not likely to remain immune” from pressures for government support of industry, say the authors Leslie Shiell and Robin Somerville. “In such a climate, industrial subsidies are often seen as a simple and direct way to preserve jobs, but they seriously risk delivering less than they promise.”

The 2009 bailout was cost-effective in that the net cost to the federal and Ontario governments was substantially less than the economic losses that would have occurred without it. However, subsidies are not the most equitable or cost-effective way to attract auto investment to Canada, maintain Shiell and Somerville.

The authors recommend that governments require competitive wages as a condition for subsidies to the auto sector. They argue that because auto workers earn a significant pay premium over similarly skilled workers in other industries, subsidies to the auto manufacturers are in fact supporting above-market wages. Furthermore, these subsidies must be financed by taxpayers, many of whom earn significantly less than auto workers.

In a commentary, Jim Stanford of the Canadian Auto Workers disagrees vigorously with the notion that wage concessions should be a precondition for auto subsidies. Auto-sector wages in Canada are comparable to those in the US and other countries, he argues.

“The wages are justified because of the worker's contribution to productivity. Trying to cut wages in the name of attracting investment would be self-defeating,” he maintains.

*Bailouts and Subsidies: The Economics of Assisting the Automotive Sector in Canada*, by Leslie Shiell and Robin Somerville, with a commentary by Jim Stanford, can be downloaded free of charge from the Institute's Web site ([www.irpp.org](http://www.irpp.org)).

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For more details or to schedule an interview please contact the IRPP.

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**Media Contact:** Nicola Johnston

Tel: 514-787-0737

Cell: 514-235-8308

