

"... THE COUNTRY'S MOST INFLUENTIAL THINK TANK." MACLEAN'S MAGAZINE, JUNE 2002



*Institute for
Research on
Public Policy*

*Institut de
recherche
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ANNUAL REPORT 2001-2002 THE YEAR IN REVIEW

Founded in 1972, the Institute for Research on Public Policy is an independent, national, non-profit organization. —The IRPP seeks to improve public policy in Canada by generating research, providing insight and sparking debate that will contribute to the public policy decision-making process and strengthen the quality of the public policy decisions made by Canadian governments, citizens, institutions and organizations. —The IRPP's independence is assured by an endowment fund, to which federal and provincial governments and the private sector have contributed.

MISSION AND MANDATE

REPORT OF THE CHAIR OF THE BOARD OF DIRECTORS

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My first year as Chair of the Board of Directors was both fascinating and a revelation. I saw close-up the incredibly varied research done by the IRPP and the immense dedication of its researchers and research directors. The quality and quantity of the Institute's output was astonishing. It is my pleasure to introduce this annual report of the IRPP's accomplishments and, more importantly, the outline of its upcoming research projects. ■ But first, I regret to have to report that one of our most dedicated board members, Rollie Lutes of Fredericton, died on February 8, 2002. He contributed a great deal to our deliberations at the board level and he was the Chair of our audit committee, a task he carried out with diligence and distinction. He will be sadly missed. ■ To honour Rollie, the board has created the Roland J. Lutes Memorial Award. It will be awarded by the board to an individual who has served the IRPP in a volunteer capacity, in a fashion so extraordinary as to merit special recognition. Diane Hanson, Rollie's widow, made the inaugural presentation of the award to Ronald Ritchie at the IRPP 30th Anniversary Dinner, held in May 2002. Thirty years ago, Mr. Ritchie (then a Senior Vice-President of Imperial Oil) developed much of the framework and substance that inspired the creation of the IRPP, in a report he submitted at the request of the Privy Council Office.

Other changes to the board include two departures, two new board members and a new IRPP member. ■ Stephen Harper, whose contributions at board meetings and advice on research matters were always insightful, resigned to enter active politics. All members of the board, especially those of us who have served in public life, wish him well. Desmond Morton, a distinguished Canadian historian and the first director of the McGill Institute for the Study of Canada, has served his term as an IRPP member from a compatible organization. His advice was always valuable, and the IRPP hopes he will continue to be available to provide wise counsel. ■ We welcomed to the board in June 2002 Kiki Delaney and Philip Orsino. Ms. Delaney has made a successful career in the financial services sector and now heads her own company in Toronto, Delaney Capital Management. Mr. Orsino is the President and Chief Executive Officer of one of Canada's most forward-thinking, international companies, Masonite International Corporation, formerly Premdor Inc. And the Honourable Barbara McDougall, P.C., LL.D., President and CEO of the Canadian Institute of International Affairs, joins us as an IRPP member from a compatible organization. She brings to the IRPP Board immense experience in foreign policy as a former Foreign Affairs Minister and Member of Parliament.

Our *raison d'être* is to produce research that informs and improves Canadian public policy. Our cornerstone is relevancy, a starting point the IRPP has built on for 30 years. Envisioned as a "source of ideas" for more effective government, the Institute was established in the turbulence of the early 70s. The 80s and the end of the Cold War led to a global rethinking of political and economic strategies; the IRPP was there to help guide Canadian policy-makers. Throughout the 90s as Canadians focused on regional concerns like Western alienation, Quebec sovereignty and a declining Atlantic economy, the IRPP provided a forum for informed debate. In February 2000, the IRPP adopted a new research agenda to ensure the course of its core areas of research — social justice, economic diversity and success, federal-provincial relations — remained relevant in the new millennium. ■ Then came September 11, 2001. Again, the IRPP adapted: As you read about the Institute's current and upcoming research, you will see topics relating to military interoperability, defence spending, border security, a North American security perimeter and Canada's immigration policy. To delve into these new areas while maintaining the quality of ongoing research speaks volumes about the IRPP's determination to be *the* source for Canadian policy-makers.

On behalf of the board, I thank the President and his colleagues on staff for their energetic and imaginative work. Hugh Segal's enthusiasm and knowledge of the country and its people, from academics to political, business and labour leaders, has led the Institute in new directions and made it better known to a broader Canadian community. A look at the IRPP website — www.irpp.org — gives one an understanding of the breadth of the Institute's research activities. ■ As new thematics on continental integration, immigration and national security get underway, I look forward to the insights of the IRPP's upcoming work.

BOB RAE *Chair of the Board of Directors*

PRESIDENT'S REPORT 2001-2002

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The mandate of the IRPP, this year and every year, cannot be fulfilled without the extraordinary efforts of the IRPP's research and support staff, as well as contributions from fellows, scholars and our Board of Directors. Their quality work has made the IRPP an essential tool of the media and Canadian policy-makers in the public policy discourse.

NEW FACES, NEW POSITIONS I am happy to introduce to the research team two new research directors and one visiting fellow. ■Geneviève Bouchard, Research Director in Governance, replaced Paul Howe, now an assistant professor at the University of New Brunswick. Ms. Bouchard will helm the IRPP's new research program on immigration and refugee policy. ■Sarah Fortin was named Research Director in Social Policy, replacing Carole Vincent. Ms. Fortin has served the IRPP as a research analyst since 1997 and is presently directing the *Social Union* and the *Family Policy* research programs. ■In the winter of 2002, Alain-G. Gagnon, Director of McGill University's Centre des Études sur le Québec, joined the IRPP as a visiting fellow. He will be studying aspects of citizenship and is co-editing a new IRPP book, *The Institutional Accommodation of Diversity*, to be published in 2003. ■I am sure their work will greatly enhance the IRPP's contributions to the public policy debate.

NATIONAL RECOGNITION The ever-changing policy environment represents a continuing challenge to the Institute as well as to all Canadians. The IRPP has been able to react to this dynamic environment while remaining true to its mandate by enhancing the policy process with contributions that were well-received and recognized throughout Canada. Indeed, the Institute was nominated for and won several prizes in recognition of its contributions to public policy research. ■For their study of the effects of taxation on Canadian families, Carole Vincent, former IRPP research director and now senior research associate at the Social Research & Demonstration Corporation, and Frances Woolley, associate professor of economics at Carleton University, won the prestigious **Doug Purvis Memorial Award in Canadian Economics** in October 2001. Their *Choices* study entitled *Taxing Canadian Families: What's Fair, What's Not* was released by the IRPP in July 2000 as part of its *Family Policy* research project. This annual award is given for the best piece of writing in Canadian public economic policy. ■Senior economist Daniel Schwanen was awarded in December 2001 the Policy Research Initiative's **Outstanding Research Contribution Award** for his study on culture and trade policy, entitled *A Room of Our Own: Cultural Policies and Trade Agreements*. In this *Choices* study, part of the IRPP's *Managing Global Linkages* research program, Schwanen examines the effectiveness of Canada's cultural policy in an era of trade liberalization. ■Finally, IRPP Senior Fellow Donald Savoie's book *Pulling Against Gravity: Economic Development in New Brunswick During the McKenna Years*, published by the IRPP in July 2001, was shortlisted in April 2002 for the 2001/2002 **Donner Prize** for the best book on Canadian public policy. The shortlisted books were chosen from a field of 69 submissions and cover a broad spectrum of policy issues.

WHERE WE ARE GOING: THE IRPP'S RESEARCH MANDATE For 30 years the IRPP's mission has been to present new policy ideas and analysis to help Canadians make effective public policy choices based on informed debate. Since its founding, the Institute has contributed to that debate through independent, non-partisan research. ■ In the past few years the policy research environment has seen significant changes. Thus, in 1999, in an effort to adapt its mission and research agenda, the IRPP conducted an internal review and a series of external consultations to help identify the challenges and opportunities and set a new strategic course for the Institute. ■ Following this review process, the Board of Directors approved a strategic plan that called for an integrated and interdisciplinary focus on one core question:

WHAT ARE THE CHOICES CANADA MUST MAKE IN ORDER TO OPTIMIZE AND INTEGRATE ECONOMIC PERFORMANCE AND SOCIAL PROGRESS IN THE FACE OF RAPID GLOBAL CHANGE, AND HOW CAN THESE CHOICES BEST BE MADE?

This question, framed here in the Canadian context, echoes the concerns of the governments of most industrialized countries as they strive to achieve the right balance in their efforts to improve social justice, promote economic dynamism and preserve social cohesion. ■ Canada's economic performance and social progress have always been at the heart of the IRPP's research agenda. The research mandate adopted in February 2000 not only builds on these principles but also focuses on the linkages between them in order to identify policies that will maximize the opportunities and well-being of Canadians and further Canada's success as a dynamic and productive economy. ■ Specifically, the IRPP research agenda is meant to highlight priorities in economic and social policies, as well as the relationships between these and broader issues of domestic and international governance. Canadian efforts to promote economic growth and social progress depend on effective democratic institutions and widespread political participation. The Institute's governance program focuses on these important underpinnings of sound public policy.

Other features of our mandate include: ■ **A multidisciplinary approach:** The issues facing Canada in the coming decades will not be easily pigeonholed into traditional academic disciplines. Experts in economics, political science, sociology and philosophy, among other disciplines, have been invited to contribute to our research initiatives. ■ **Collaboration with other organizations:** The Institute has collaborated or is currently collaborating with other organizations on a number of initiatives: the Canadian Policy Research Networks; CBC Newsworld and the Cable Public Affairs Channel (CPAC); the Centre for the Study of Living Standards; the McGill Centre for the Study of Quebec; the Saskatchewan Institute for Public Policy; the Centre for the Study of Democracy at Queen's; the Ecole nationale d'administration publique, in Montreal; the School of Public and Community Affairs at Concordia; the School of Public Administration at Dalhousie; the Centre for the Study of Regional Development at the University of Moncton and others. ■ **A strong commitment to a mix of short-, medium- and long-term research activities:** This ensures a balance between our commitment to contemporary public policy discussions and effective execution of our public education and research dissemination role. Thus, in January 2000 the Institute inaugurated a new "working lunch" tradition and launched a new series of discussion papers entitled *Policy Matters*, which give our research staff and associates the flexibility needed to address specific issues in a timely fashion. But, the IRPP will continue to rely on *monographs*, peer-reviewed *Choices* papers and its monthly magazine, *Policy Options*, to disseminate its research findings.

GOVERNANCE PROJECTS An important area of our research is to examine the challenges of domestic and international governance. Canadian efforts to promote economic dynamism and social progress depend on effective democratic institutions and widespread political participation. The Institute's governance program focuses on these important underpinnings of sound public policy, centering on the question "How should our governance structures be organized to make the right choices in the face of rapid social change?"

The Art of the State Symposium Canadian policy-makers have to come to grips with the need for new modes of governance in the context of a changing global order. Indeed, it has now become trite to write that the pace of change in society has accelerated dramatically in recent years. It is apparent, even to the most casual observer, that traditional public policy solutions may no longer be appropriate or effective. ■ In many ways, this is uncharted territory; it requires innovative thinking and solutions. Thus, a symposium entitled *The Art of the State* will now take place biennially to look at the impact of democratic, economic and technological forces on governance and to explore how Canada and its regions can best meet these new challenges. ■ The first symposium, which was organized and chaired by the IRPP Senior Scholar Tom Couchene and the IRPP Senior Fellow Donald Savoie, took place on October 12 and 13, 2001, at the Château Montebello. The event, which gathered a select group of highly regarded academics, experts and practitioners to explore the challenges of *Governance in a World Without Frontiers*, was a great success. The papers commissioned as part of this project as well as some of the presentations will be published in an edited volume, planned for December 2002.

Back to the Table: A New Social Union for 2002? The Social Union Framework Agreement signed in February 1999 by the federal, provincial (except Quebec) and territorial governments, is a time-bound, administrative document that was meant to establish new ground rules to improve intergovernmental processes and clarify responsibilities in the area of social policy. Given the three-year deadline for review stated in the Agreement, the IRPP has invited a number of experts to examine the terms and the implementation of the SUFA in order to determine whether it provides a satisfactory framework to improve the functioning of the Canadian social union. Has the SUFA contributed to more harmonious intergovernmental relations in the development of social policy? Is it a viable arrangement given the non-participation of one of its partners? Should the SUFA be renewed, and if so, under what conditions? ■ Seven studies were commissioned as part of this project, including two of a more general nature on recent changes in the federal government's approach to social policy, and an assessment of the European experience in establishing the foundations of its own social union. Five of the papers related to the SUFA review were published as *Policy Matters* papers this year. All of the papers will be included in an edited volume to be published in 2003.

A NEW FOCAL POINT Public policy took on a different tenor for Canada and the rest of the world after the tragic events of September 11. In 2002-2003 the IRPP will explore issues newly relevant in this changed environment through ongoing and new research initiatives on national defence, immigration and citizenship.

Revisiting Canada's Immigration Policy Post-September 11 In the immediate aftermath of September 11, issues of national security rose to the top of the Canadian political agenda. Agencies, laws and regulations, concerned with security, customs, immigration and even financial assets, have all come under great scrutiny, with Canadian immigration policy and its effectiveness in controlling entry of unwanted migrants being front and center. Critics have suggested that the Canadian immigration system has been too lax and generous and must now be seriously re-examined in an effort to restore not only the confidence of the Canadian public but that of our neighbour to the south as well. This in turn has sparked a more widespread debate over the ability of the current system to meet its stated humanitarian and economic goals while contributing to shared security objectives. — Given the importance of this debate and its broad ramifications for economic and social policy and its governance implications, the IRPP has undertaken an extensive research agenda on Canada's immigration and refugee policy. The main focus will be on the concerns associated with issues of sovereignty versus economic integration, security and border controls and reconciling humanitarian and economic policy goals.

National Security and Interoperability Further to last year's IRPP conference on the *Challenges to Governance: Military Intervention Abroad and Consensus at Home*, and the approval of a new thematic on National Security and Military Interoperability in June of 2001, the IRPP co-sponsored and participated in a workshop organized by the Centre for Defence and Security Studies of the University of Manitoba. Held in Gimli, Manitoba, on October 18-21, 2001, the workshop, entitled *The Canadian-American Defence Relationship: What Next?* featured the presentation of several papers by Canadian and American experts on current defense and security issues. These were subsequently published in a special issue of *Policy Options* (April 2002). — The first two of a series of *Choices* and *Policy Matters* studies commissioned under this research program were also published in recent months: *Sailing in Concert: The Politics and Strategy of Canada-US Naval Interoperability*, by Joel Sokolsky (Royal Military College of Canada), published in May 2002, and *Canada and Military Coalitions: Where, How and with Whom?*, by Douglas Bland (Queen's University), published in February 2002. The remaining papers in this series are to be published during the current year.

NEXUS PROJECTS Canada's economic performance and social progress have always been at the heart of the IRPP's research agenda. The research mandate adopted in 2000 continues to focus on these policy areas, but more so on the linkages between them in order to identify the policy priorities necessary to both maximize the opportunities and well-being of Canadians *and* reap the benefits of a dynamic and productive economy. Increasingly, political leaders, academics and practitioners are coming to understand that in order to realize any lasting impact from economic liberalization and democratization programs, fundamental progress must be made simultaneously on the social, political and economic fronts.

Linkages Between Economic Growth and Inequality In recent years, there has been renewed interest in the impact of inequality on economic growth and the effect of economic growth on the income distribution. To shed light on these relationships in a Canadian context, the IRPP has undertaken, in conjunction with the Centre for the Study for Living Standards (CSLS), an extensive research program to investigate the linkages between economic growth and inequality. ■ Ten papers which were initially presented at the IRPP-CSLS conference, *Linkages Between Economic Growth and Inequality*, held in Ottawa on January 26 and 27, 2001, will be published in a special issue of *Canadian Public Policy*.

The Review of Economic Performance and Social Progress As part of its Nexus research initiative, the Institute now produces in conjunction with the Centre for the Study of Living Standards (CSLS) an annual journal, *The Review of Economic Performance and Social Progress*. It examines a wide range of issues related to economic performance and social progress in Canada and other countries from a multi-disciplinary perspective, and explores the causal linkages between economic and social outcomes. The goal of this project is to publish non-technical articles on the state of knowledge on a selected theme in a format that is accessible to a wider audience including students, policy-makers and the general public. ■ The inaugural issue, which is subtitled *The Longest Decade: Canada in the 1990s*, (released in May 2001), focuses on the impact of that turbulent decade on the economic and social well-being of Canadians. The second issue, *Productivity and Social Progress in Canada: Perspectives and Prospectives*, will examine the linkages between productivity and various measures of social progress in Canada and investigate the social determinants of productivity.

Health and Public Policy Following up on the work and report of the IRPP Task Force on Health Care (released September 2000), the IRPP has undertaken a number of specific research projects and initiatives in an effort to foster greater public debate on selected strategic issues prior to the release of the findings and recommendations of the Standing Senate Committee on Social Affairs, Science and Technology and the Romanow Commission. ■ The first paper in this series, entitled *What is the Best Public-Private Model for Canadian Health Care?*, by Kieke Okma (Queen's University and Dutch Ministry of Health), was published in May 2002. Three more papers will be published in the months to come. ■ As part of this research program, the IRPP also co-sponsored a conference entitled *A Patients' Bill of Rights for Ontario?* This event, presented by the Faculty of Law of the University of Toronto in October 2001 as part of the Second Annual Health Law Day, brought together lawyers and academics to discuss one of the most important issues in health law and policy facing Ontario.

Managing Global Linkages: A Road Map to North American Integration The ongoing process of economic integration between Canada and the United States raises policy issues from two perspectives. First, many whose livelihood depends on effective trade and investment links between the two countries favour further facilitating these links by pursuing even greater economic integration than that implied under existing trade agreements such as the FTA and NAFTA. Second, those concerned about maximizing Canada's room for maneuver on a wide range of economic, social and political fronts worry about the constraints imposed by current agreements, let alone with additional moves toward further integration. These two perspectives are often at odds. Policy-makers need to know whether and how these objectives are reconcilable. To the extent that they are not, where should our priorities lie? ■ A new series of research papers, under the theme *Roadmap to North American Integration*, will explore issues in the management of linkages that are of particular relevance to Canada's economic relationship with the United States and Mexico.

The Institutional Accommodation of Diversity Professor Alain-G. Gagnon, Director of McGill University's *Centre des Études sur le Québec*, joined the IRPP in the winter of 2002 as a visiting fellow. Together with Montserrat Guibernau and François Rocher, he has been working on *The Institutional Accommodation of Diversity*. A collection of essays prepared under the auspices of the Research Group on Multinational Societies, this book will be divided in four parts: Questioning the Contours of Citizenship, Institutional Designs, Legal Mediation of Diversity and Opportunities for Mobilization. This book will be published in spring 2003.

**2001-2002: A YEAR OF ACCOMPLISHMENTS
ENGAGING ON THE ISSUES THAT MATTER TO
CANADIANS — HIGHLIGHTS** Across Canada, in a variety of fora and media, the IRPP furthered the exploration of issues that matter to Canadians.

APRIL In his *Choices* paper, *A Room of Our Own: Cultural Policies and Trade Agreements*, the IRPP Senior Economist Daniel Schwanen posits that the instruments used to implement Canada's cultural policies are often disconnected from the underlying cultural policy objectives. In a globalizing world, this paper concludes, the government of Canada can best achieve its goal of protecting and promoting Canadian culture by abandoning some of its current protectionist cultural policies in exchange for securing recognition of cultural policy objectives within trade agreements.

MAY The IRPP released *Judicial Power and Canadian Democracy*, a collection of essays and articles on the role of the judiciary in Canadian politics. This volume, edited by former IRPP research director Paul Howe and University of Toronto Professor Emeritus Peter Russell, brings together a series of articles previously published in *Policy Options* or as *Choices* papers as part of the Institute's *Courts and Legislatures* series. — The inaugural issue of *The Review of Economic Performance and Social Progress*, jointly published by the IRPP and the Centre for the Study of Living Standards (CSLS) was publicly launched in Montreal on the eve of the Canadian Economics Association's annual meeting at McGill University. Edited by Keith Banting, Director of the School of Policy Studies at Queen's University, CSLS Executive Director Andrew Sharpe and the IRPP Vice-President, Research France St-Hilaire, the first issue, subtitled *The Longest Decade: Canada in the 1990s*, focuses on the impact of that turbulent decade on the economic and social well-being of Canadians. The 2001 *Review* explores defining policy shifts of the 1990s and provides the first comprehensive assessment of their effects on Canadian society.

JUNE *Introducing Direct Democracy in Canada*, a *Choices* paper released as part of the IRPP's *Strengthening Canadian Democracy* series, argues that Canadian governments should consider increasing their use of referendums and other forms of direct democracy but should seek the models and practices that best complement existing political processes. Prepared by Matthew Mendelsohn, professor of politics at Queen's University, and Andrew Parkin, assistant director of the Centre for Research and Information on Canada, this study assesses the advantages and drawbacks of making referendums a staple of Canadian political life. Drawing on experiences in Italy, Switzerland, Australia, New Zealand and several American states, the authors consider various models of direct democracy and their applicability to the Canadian political context.

JULY The IRPP published its third book of the year, *Pulling Against Gravity: Economic Development in New Brunswick During the McKenna Years*, by Donald J. Savoie, IRPP senior fellow and Clément-Cormier Chair in Regional Economic Development at the Université de Moncton. Savoie's book takes stock of Frank McKenna's tenure at the helm of the Maritime province and analyzes both the details of his sweeping reforms and Ottawa's economic development policies to shed light on the successes and limitations of the "McKenna Miracle." ■ *Civic Literacy in a Comparative Context: Why Canadians Should Be Concerned*, is a *Policy Matters* study of the relationship between what Canadians know about politics and their levels of political participation. Henry Milner, a political scientist at Vanier College and Laval University and visiting professor at Umeå University in Sweden, finds that more people reading more newspapers leads to a stronger, more participatory political process. In his view, promoting higher levels of "civic literacy" would reinforce Canadian democracy. ■ On the eve of the Annual Premiers' Conference, the IRPP also released a study on the state of federal-provincial relations by Roger Gibbins, President and CEO of the Canada West Foundation. Entitled *Shifting Sands: Exploring the Political Foundations of SUFA*, this *Policy Matters* study argues that given the changes in the political landscape of both Ottawa and the provinces since the signing of the Social Union Framework Agreement, the stakeholders may prefer to spend little time on a formal review.

SEPTEMBER *Parliamentary Secretaries: The Consequences of Constant Rotation*, by Peter Dobell, analyzes the methods of appointment since that office was first established and assesses the consequences of biennial rotation, a practice initiated by Prime Minister Trudeau and taken up by Prime Minister Chrétien. Dobell, founding director of the Parliamentary Centre, concludes that a return to the practice of re-appointing competent parliamentary secretaries for multiple terms instead of rotating them every two years would improve the House of Commons' efficiency and provide more continuity for committee chairs.

OCTOBER In *Generational Patterns in the Political Opinions and Behaviour of Canadians: Separating the Wheat from the Chaff*, Brenda O'Neill (University of Manitoba) points to the increasing disengagement from traditional politics among younger Canadians as the most worrying trend in Canadian democracy, and one that is unlikely to be reversed as they age.

NOVEMBER As the three-year anniversary of SUFA and the deadline for its review and renewal approached, the IRPP announced the release of *Power and Purpose in Intergovernmental Relations*. This *Policy Matters* study, by IRPP Research Fellow Alain Noël (Université de Montréal), reassesses SUFA, its implementation and its significance in the broader framework of intergovernmental relations in Canada. — *The Brain Drain: Myth and Reality – What It Is and What Should Be Done*. Presenting one of Canada's most controversial and still unresolved debates in a novel manner, this *Choices* paper includes a comprehensive analysis by lead author Ross Finnie (Queen's University) along with commentary by five experts, as well as Finnie's rejoinder. According to Finnie, Canada needs to retain highly talented individuals if it is to sustain the quality of life of its population. In turn, quality of life considerations often play a vital role in an individual's decision to stay here, or join the brain drain. Thus, he argues, part of the solution involves better recognition of exceptional talent in Canada.

DECEMBER In *SUFA and Citizen Engagement: Fake or Genuine Masterpiece?* Susan D. Phillips (Carleton University) writes that the agreement's promise of citizen involvement held out expectations of a new model for intergovernmental relations: "instrumental federalism." A key component of the new model is citizens as the third force of federalism — not so much a means of reducing a democratic deficit, but an indirect vehicle for governments to hold each other accountable, something they cannot do directly in our federal system. Unfortunately, the author concludes, the federal and provincial governments have so far failed to act on these commitments.

JANUARY 2002 *Restoring the Federal Principle: The Place of Quebec in the Canadian Social Union*, by Christian Dufour of l'École nationale d'administration publique (ÉNAP) is the fourth paper to be released in this series on the social union. This *Policy Matters* paper examines the nature and evolution of Canada-Quebec relations over the past two decades and highlights the opportunities, and pitfalls, that have arisen within the context of the social union. According to the author, the signing of the Social Union Framework Agreement without Quebec is the most recent manifestation of a deep and longstanding impasse between Quebec and the rest of Canada, a situation that continues to negatively affect the Canadian political system. — Professor Yves Vaillancourt's (Université du Québec à Montréal) study, *Le modèle québécois de politiques sociales et ses interfaces avec l'Union sociale canadienne*, also examines the Canadian social union from a Quebec perspective, but focuses on the social policy and intergovernmental dimensions. The paper describes how, over the past ten years, the province of Quebec has introduced many innovative programs that have made it a laboratory of social policy reform. In his view, adopting SUFA without Quebec was a serious mistake that deprived the rest of Canada of its unique and innovative expertise.

FEBRUARY As part of a series of events to mark its thirtieth anniversary, the IRPP has organized special anniversary lectures to take place across Canada over the year. Key participants in watershed developments in public policy over the last three decades have been asked to reflect on their contributions and to share their insights. The Honourable Monique Bégin, Minister of National Health and Welfare from 1977 to 1984, delivered the first IRPP 30th anniversary lecture in Ottawa in February on the factors that lead to the introduction of the *Canada Health Act* in 1984 and its implications for health-care funding today. Among the other distinguished Canadians who have taken part in this special lecture series are, the Honourable Donald S. Macdonald, chair of the Royal Commission on the Economic Union and Development Prospects for Canada in the early 1980s, who delivered his lecture on April 9 in Toronto, and the Honourable Claude Castonguay, who spoke May 7 in Montreal on the current challenges faced by the Caisse de Dépôt, the Québec pension fund he helped create three decades ago. ■ The IRPP also released *Canada and Military Coalitions: Where, How and With Whom?*, by Professor Douglas L. Bland of Queen's University, the first paper in the *National Security and Military Interoperability* series. This paper assesses Canada's present and future military capabilities and what they imply for a foreign policy based on acting through coalitions. According to Professor Bland, the realities of the "New World Disorder" require that Canada integrate foreign policy and defence strategy in order to join ends and means and to focus on critical issues of national interest.

MARCH In his *Choices* study, *The Bright Side: A Positive View on the Economics of Aging*, Marcel Mérette (University of Ottawa) provides a different take on the effects of an aging population on the standard of living of Canadians and the future of public finances. According to the author, most previous assessments have emphasized the costs of population aging while neglecting likely positive factors, leading to overly pessimistic scenarios about the economic and fiscal consequences of aging in Canada. He argues that as wages rise and tax revenues from RRSPs and other tax-assisted retirement savings grow, revenue growth will be sustained and governments will be able to pay for old age-related expenditures. ■ The IRPP, in conjunction with Concordia University's School of Community and Public Affairs, organized a two-day symposium entitled *Protest, Freedom and Order in Canada: Finding the Right Balance*. The event, which was well-attended, had a dual purpose – to shed light on recent practices of political mobilization in the context of anti-globalization and anti-corporate protest and to stimulate the debate on the future of democracy and dissent in Canada. The symposium featured keynote speaker Leo Panitch, Canada Research Chair Scholar and Professor of Political Science at York University, who discussed the role of violence as a tool of order and change. Reid Morton, former President of the Canadian Security and Intelligence Service, Alan Borovoy, head of the Canadian Civil Liberties Union and senior officers from the Sureté du Québec also participated, along with protest leaders previously involved in the organization of the demonstrations at the Quebec City Summit of the Americas. ■ The IRPP also released a new *Policy Matters* paper by Thomas Courchene (Queen's University and IRPP senior scholar), entitled *Embedding Globalization: A Human Capital Perspective*. Following on his earlier work, *Canada: A State of Minds*, Courchene argues the challenge of the globalization and information revolution (GIR) is to ensure that it benefits individuals as much as multinational enterprises, not only as consumers but also as citizens. In his view, globalization must be embedded in society as well as in the economy, in Canada and around the world.

IN SUPPORT OF OUR RESEARCH ACTIVITIES The Institute's core research functions are complemented by a number of related activities and initiatives, which enhance its contribution to academic knowledge and public debate. ■ *Policy Options*, published ten times per year, is Canada's premier public policy magazine. Its goal is to encourage informed debate on the important public policy issues of today, and tomorrow. In each edition, short articles on issues that dominate the headlines are combined with in-depth analyses of longer-term issues on the policy horizon. Enjoying wide distribution beyond the policy community, *Policy Options* has subscribers in every province and abroad. Moreover, last year its articles generated over 150,000 downloads from the IRPP website. Canadian editorial writers consider it a valuable source of background information. ■ The flexibility of the magazine format allows the IRPP to address topical issues and remain relevant as priorities and issues evolve, and it provides a conduit for papers presented at the Institute's events. The magazine also receives contributions from distinguished personalities such as Milton Friedman, Tom Kent, Michel Venne, Jean-François Lisée and James Tobin. ■ The IRPP website, www.irpp.org, is a growing success. Ever-increasing numbers of visitors use our website to find unique information about public policy research in Canada and to download, free of charge, IRPP studies: 65% more people visited IRPP's website this year than last resulting in nearly a *quarter-million* downloaded articles and studies. The website's search engine, its secure online ordering system and its e-mailing list are immensely popular. This year, the Institute introduced a new tool that allows easy online registration for IRPP events. ■ Also new is a monthly cyber-column by award-winning writer James Ferrabee, a former *Southam News* foreign correspondent and *Montreal Gazette* editor. Launched in May 2001, it appears on the IRPP's website the first Monday of every month. The column, *James Ferrabee Online*, may be used by newspapers or magazines or as background for editorials without charge but with attribution to the IRPP. Since winter 2002, James Ferrabee has also welcomed comments on his column at fferrabee@irpp.org

THE YEAR IN NUMBERS The IRPP accomplished much in 2001-2002. While maintaining a high level of quality, the Institute hosted 26 events in 5 cities, including 3 major conferences, 8 policy workshops and 11 working lunches, and produced a steady stream of wide-ranging research output. The Institute's research activities, events and publications had a major impact in terms of media visibility and the number of visits to the website (80,000 visitors). Thus, in the past year, 686 news stories on IRPP research and activities appeared in print and broadcast media (an increase of 22 percent over the previous year).

LOOKING AHEAD As I look back on the year's activities, I am encouraged by the focus, policy relevance and quality of the work. I know it was possible only because of the tremendous efforts of all my colleagues on the [IRPP staff](#). It is a distinct honour to work with a dedicated team. I want to pay particular tribute to France St-Hilaire and Suzanne Ostiguy McIntyre, the IRPP's Research and Operations Vice-Presidents respectively, without whose intellect, determination, forbearance and diligence the IRPP would not achieve the quality, rigour and impact it seeks to sustain. ■ Looking ahead, the IRPP is expanding its areas of research, new researchers are putting forward new insights, new publications and new fora are helping us reach new audiences, and the traffic on our website is growing at an astonishing rate. The prospects for ongoing constructive contribution remain extremely encouraging. ■ For 30 years the IRPP has cut a unique path through the world of Canadian public-policy research, and our 31st continues this legacy. It is a privilege to serve an organization whose dedication to the public interest is both compelling and knowledge-based.

HUGH SEGAL *President*

INVESTMENT COMMITTEE REPORT

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The main objective of the Institute's Endowment Fund is to provide support for the work of the Institute. For that reason the Investment Committee concentrates on maintaining the real value of the Fund after inflation, so that it can continue to produce significant financial support in future years. —To this end, rather than using the income generated by the Fund to support research, the Board of Directors decided in 1986 to withdraw annually an amount equal to 5 percent of the average of the last three year ends capital value of the Fund. Using a three-year average smoothes the impact of changes in the market and increases predictability. For the fiscal year 2002-2003, under this formula the sum available to support the work of the Institute amounts to **\$2,139,750**. —Capital gains of **\$1,152,169** and income during the last fiscal year of **\$1,411,737** together amounted to **\$2,563,906**.

Four years ago the Investment Committee decided, after interviewing a number of investment firms, to divide the Fund into two equal portions. KSBH Capital Management, which managed the Fund during most of the last decade, was joined by Beutel, Goodman and Company Ltd. The division formally took place on January 31, 1999. —The two managers have different management styles, Beutel Goodman following a value style, whereas KSBH emphasizes growth. Over the course of the past couple of years, the trend had been for the value style to perform substantially better, although previously growth managers had been more successful. Last autumn the Committee reviewed the situation and concluded that periodic rebalancing between different investment styles/managers had a history of producing better returns and lower variability. Accordingly, with the approval of the Board of Directors, the Committee decided to transfer a total of **\$3,000,000** from Beutel to KSBH at a rate of **\$1,000,000** a month, the transfer to be effected on the last day of the months of December, January and February.

The following table reports results over the past year for the two fund managers. In comparing the results, it must be noted that the year 2001 saw declines in the major markets and, secondly, that funds have been transferred between the two portfolios during the year. Therefore only the combined market value of the two portfolios is directly comparable, and happily there has been a modest increase in value over the fiscal year.

	KBSH		BEUTEL GOODMAN	
	March 31, 2002	March 31, 2001	March 31, 2002	March 31, 2001
MARKET VALUE	\$20,229,753	\$19,171,000	\$22,142,175	\$22,623,000
ASSET MIX				
Cash and Equivalent	1.8%	4.4%	5.7%	9.0%
Fixed Income	43.1%	43.7%	38.3%	40.9%
Canadian Equities	22.8%	22.1%	16.7%	14.3%
U.S. Equities	19.3%	16.7%	39.3%	35.8%
Non-N.A. Equities	13.0%	13.1%	—	—
Total Equities	51.1%	51.9%	56.0%	50.1%

Beutel Goodman reduced its holdings of cash and cash equivalents and used the funds to increase the proportion of US and Canadian stocks in its portfolio. KBSH made only minor modifications in the asset mix of its portfolio.

Some years ago the Investment Committee established a yardstick for evaluating the performance of the Fund managers. This benchmark consists of a four-year moving average of four indices: Canadian and foreign equities, Canadian bonds and mortgages. KBSH achieved a rate of return of 7.1 percent, comfortably above the benchmark rate of 4.9 percent. Since Beutel Goodman has only been responsible for its part of the Fund for three years, the benchmark cannot yet be applied, but at this stage, the manager is on track to exceed it. — The combined market value of the Fund, including other current assets, amounted to **\$42,513,832**. Of this sum, **\$1,367,298** represents unexpended monies authorized during the current and prior years for transfer to the operating account that have been left in the Endowment Fund to maximize the funds managed by the investment counsellors.

AUDITORS' REPORT

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TO THE DIRECTORS OF THE INSTITUTE FOR RESEARCH ON PUBLIC POLICY

We have audited the statement of financial position of the Institute for Research on Public Policy as at March 31, 2002 and the statements of operations and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. In our opinion, these financial statements present fairly, in all material respects, the financial position of the Institute as at March 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

DELOITTE & TOUCHE, LLP

Chartered Accountants

May 10, 2002

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES
year ended March 31, 2002 (in thousands of dollars)

	Operating Fund \$	Endowment Fund \$	2002 \$	Total 2001 \$
REVENUE				
Investment income, net (Note 3)	2,397	-	2,397	3,035
Publications	63	-	63	72
Other	169	-	169	188
	<u>2,629</u>	<u>-</u>	<u>2,629</u>	<u>3,295</u>
Expenses				
General research and support services	1,918	-	1,918	2,348
Policy Options Magazine	193	-	193	266
Publication costs	289	-	289	250
Interest	5	-	5	5
Amortization of capital assets	31	-	31	31
	<u>2,436</u>	<u>-</u>	<u>2,436</u>	<u>2,900</u>
EXCESS OF REVENUE OVER EXPENSES	193	-	193	395
Fund balances, beginning of year (Note 12)	1,105	34,784	35,889	35,494
Transfer to Endowment Fund (Note 3)	(10)	10	-	-
FUND BALANCES, END OF YEAR	<u>1,288</u>	<u>34,794</u>	<u>36,082</u>	<u>35,889</u>

STATEMENT OF FINANCIAL POSITION
as at March 31, 2002 (in thousands of dollars)

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	Operating Fund \$	Endowment Fund \$	2002 \$	Total 2001 \$
ASSETS				
Current assets				
Cash	-	67	67	124
Term deposits and treasury bills	63	-	63	61
Accounts receivable				
Accrued income	-	274	274	276
Due from Endowment Fund*	1,367	-	-	-
Other	65	51	116	113
Prepaid expenses	82	-	82	100
	1,577	392	602	674
Marketable securities (Note 4)	-	35,808	35,808	35,410
Capital assets (Note 5)	68	-	68	99
	1,645	36,200	36,478	36,183
LIABILITIES				
Current liabilities				
Bank indebtedness (Note 6)	107	-	107	98
Accounts payable and accrued liabilities	139	39	178	177
Deferred revenue (Note 7)	14	-	14	19
Due to Operating Fund*	-	1,367	-	-
	260	1,406	299	294
Deferred contributions (Note 8)	97	-	97	-
NET ASSETS				
Invested in capital assets	68	-	68	99
Internally restricted (Note 9)	-	34,794	34,794	34,784
Unrestricted	1,220	-	1,220	1,006
	1,288	34,794	36,082	35,889
	1,645	36,200	36,478	36,183

*Amounts due to/from each fund are eliminated from the total column.

STATEMENT OF CASH FLOWS

year ended March 31, 2002 (in thousands of dollars)

	2002	2001
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	193	395
Items not affecting cash		
Gain on sale of investments	(1,152)	(1,762)
Amortization of capital assets	31	31
Changes in non-cash working capital items		
Accounts receivable	(1)	60
Prepaid expenses	18	(53)
Accounts payable and accrued liabilities	1	(65)
Deferred revenue	(5)	(1)
	(915)	(1,395)
CASH FLOWS FROM FINANCING AND INVESTING ACTIVITIES		
Purchase of capital assets	-	(49)
Purchase of investments	(35,948)	(35,077)
Sale of investments	36,702	36,346
Increase in deferred contributions	97	-
	851	1,220
Net cash outflow	(64)	(175)
Cash position, beginning of year	87	262
CASH POSITION, END OF YEAR	23	87
Represented by		
Cash	67	124
Term deposits and treasury bills	63	61
Bank indebtedness	(107)	(98)
	23	87

NOTES TO THE FINANCIAL STATEMENTS

year ended March 31, 2002 (all tabular amounts are in thousands of dollars)

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1. DESCRIPTION OF ORGANIZATION

The Institute for Research on Public Policy is an independent, national, not-for-profit organization. Its mission is to improve public policy in Canada by promoting and contributing to a policy process that is more broadly based, informed and effective. The Institute is incorporated under the Canada Business Corporations Act as a not-for-profit organization and is a registered charity under the Income Tax Act.

2. SIGNIFICANT ACCOUNTING POLICIES

These statements have been prepared in accordance with Canadian generally accepted accounting principles, using the deferral method of accounting for contributions.

Fund accounting The financial statements have been prepared in a manner which segregates the following balances: —(i) The Operating Fund reports revenue and expenses related to program delivery and administrative activities of the Institute —(ii) The Endowment Fund reports resources contributed for endowment. Investment income earned on resources of the Endowment Fund is reported in the Operating Fund.

Revenue recognition Restricted contributions relating to operations are recognized as revenue of the Operating Fund in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. —Endowment contributions are recognized as direct increases in the Endowment Fund balance. —Operating Fund revenue includes investment income when earned and capital gains or losses when realized.

Publication costs Publication costs are now expensed as incurred.

Capital assets Capital assets are recorded at cost. Amortization is computed using the straight-line method at rates calculated to amortize the cost of the assets less their residual value over their estimated useful lives. Computer and office equipment are amortized on the straight-line basis over five years. Leasehold improvements are amortized on the straight-line basis over the term of the lease.

Investments Investments are recorded at the lower of cost and market value. —Gains or losses on disposal of investments are calculated on the average cost basis and are included in the Operating Fund.

Appropriations The Board of Directors of the Institute may, at its discretion, appropriate to the Endowment Fund all or a portion of any operating surplus.

3. TRANSFER TO ENDOWMENT FUND

The Operating Fund retains for its use investment revenue equivalent to **5%** of the average market value of the Endowment Fund at the end of the three preceding years. Under this formula, the Board of Directors has made available to the Operating Fund an amount of **\$2,074,950** (2001 - **\$2,044,283**). In addition, the Board of Directors approved the use of **\$308,396** for the current year's operations from the Operating Fund accumulated surplus (2001 - **\$588,297**). The balance of the investment income amounting to **\$10,000** (2001 - **\$958,000**) remains in the Endowment Fund. Investment income earned is reported as follows:

	2002	2001
	\$	\$
Income earned on resources held for endowment	1,412	1,403
Gain on sale of investments of the Endowment Fund, net	1,152	1,762
Investment management and custodial fees	(170)	(139)
Income earned on resources of the Operating Fund	3	9
	2,397	3,035

4. MARKETABLE SECURITIES

	2002		2001	
	Cost	Market Value	Cost	Market Value
	\$	\$	\$	\$
Bonds	18,595	18,579	20,083	20,323
Stocks	17,213	23,542	15,327	21,277
	35,808	42,121	35,410	41,600

5. CAPITAL ASSETS

	2002		2001	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Computer equipment	294	229	65	84
Office equipment	85	82	3	4
Leasehold improvements	63	63	-	11
	442	374	68	99

6. BANK INDEBTEDNESS

A Canadian chartered bank has provided the Institute with a line of credit of \$500,000 at the prime lending rate. As security for any borrowings under the line of credit, a letter of undertaking has been provided to the lender confirming that the Endowment Fund investments are not subject to any encumbrances which would make them unavailable to service the Institute's debt. ■ As at March 31, 2002, none of the line of credit has been used as the bank indebtedness results solely from outstanding cheques.

7. DEFERRED REVENUE

Deferred revenue in the Operating Fund relates to Policy Options subscriptions and will be reflected as revenue over the term of the subscription.

8. DEFERRED CONTRIBUTIONS

Deferred contributions represents amounts received and restricted for use on projects specified by the donors. Deferred contributions will be recognized as revenue of the Operating Fund in the period in which the expenses related to such specified projects are incurred.

9. RESTRICTIONS ON NET ASSETS

The assets of the Endowment Fund have been internally restricted by the Board of Directors of the Institute stipulating that these assets are to be managed permanently to support the operating activities of the Institute. These internally restricted amounts are not available for other purposes without approval of the Board of Directors.

10. PENSION PLAN

On September 20, 2001, the Institute terminated its defined benefit plan. At that date the pension plan had neither a funding excess nor a deficiency.

11. COMMITMENTS

The Institute has entered into operating leases relating to equipment and office premises. The amounts due in each of the next five years are as follows:

	\$
2003	61,744
2004	61,647
2005	60,954
2006	63,054
2007	64,539

12. COMPARATIVE FIGURES

Certain differences were noted in the opening figures for 2001. Accordingly, the fund balance and marketable securities figures for 2001 have been decreased by **\$50,000** from the amounts previously reported.