



*Institute for
Research on
Public Policy*

*Institut de
recherche
en politiques
publiques*

2004 ANNUAL REPORT

MISSION STATEMENT

Founded in 1972, the Institute for Research on Public Policy is an independent, national, nonprofit organization.

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.

IRPP's independence is assured by an endowment fund, to which federal and provincial governments and the private sector have contributed.

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FINANCIAL HIGHLIGHTS OF OPERATING FUND

(in thousands of dollars)

The IRPP operations have run at a surplus for the last three years.

	2004	2003	2002
Revenues*	2,640	2,830	2,618
Expenses	2,534	2,767	2,436
Revenues over expenses	106	63	182

FINANCIAL HIGHLIGHTS OF ENDOWMENT FUND

(in thousands of dollars)

	2004	2003	2002
Total Year-End Market Value	39,700	34,625	42,514

*Revenues consist of investment income approved for operations, revenue from publications and other revenue.



REPORT OF THE CHAIR OF THE BOARD OF DIRECTORS

The 2003–04 fiscal year was one of continuity and change for the IRPP. First and foremost I am delighted that in June 2003 Hugh Segal agreed to take on a second five-year mandate as president. His vision and leadership have already made their mark in so many striking ways. This year also saw the IRPP begin work on implementing its new research plan for the 2004–09 period, which the Board approved in December 2003. The new plan, while reorienting the IRPP’s research in some new directions, also incorporates many existing research priorities. Work has already begun on some projects in what is shaping up to be an extremely full research agenda for the next five years, in terms of publications, conferences and other events.

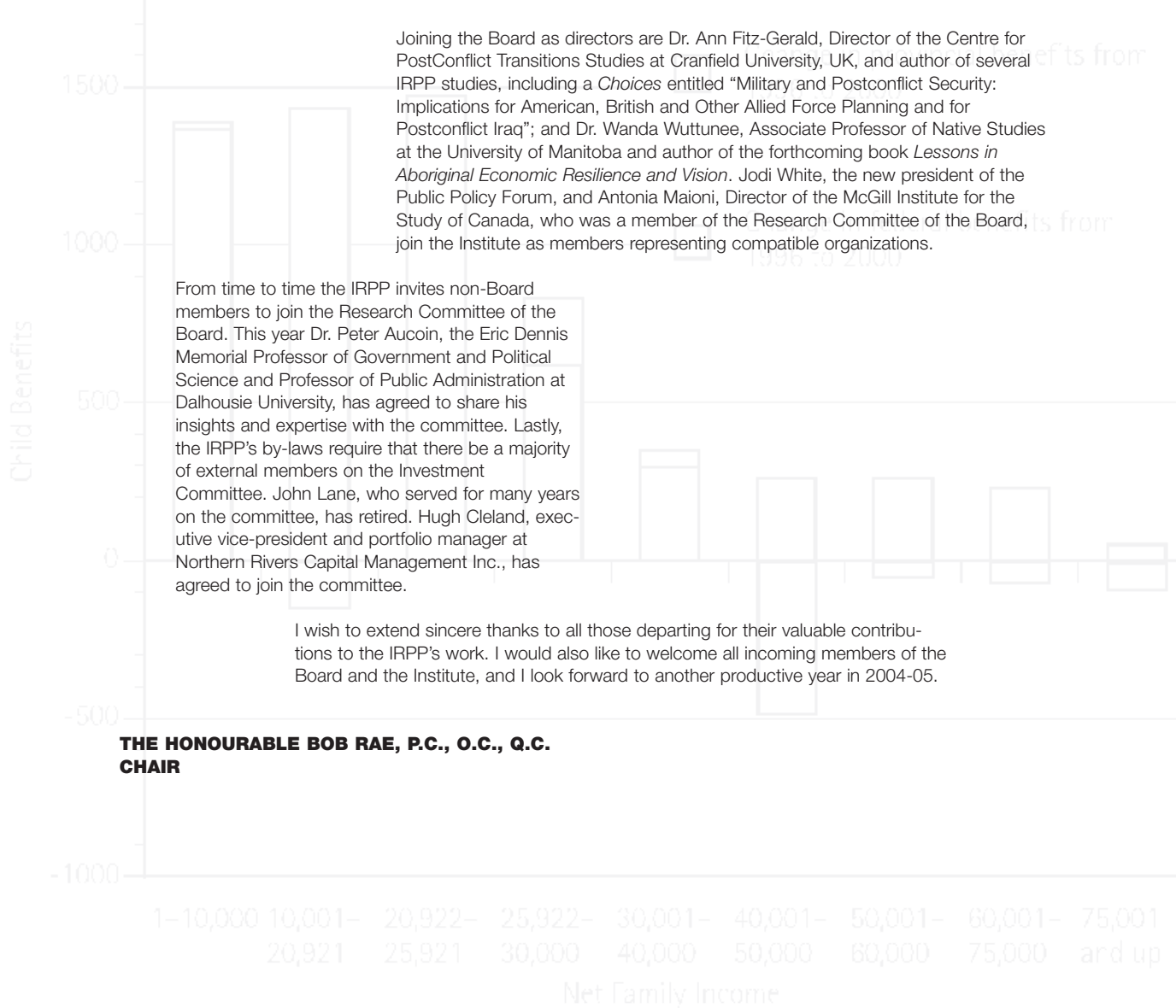
Turning to **Board** business, directors Marcel Côté (Chair, Communications Committee) and Manon Vennat (Chair, Governance Committee) are stepping down from the Board after two successive four-year terms. Two members of the Institute representing compatible organizations are also stepping down after two successive three-year terms. Dr. Roger Gibbins, president and CEO of the Canada West Foundation, co-edited *Beyond the Impasse* and authored a *Policy Matters* in the social union research program entitled “Shifting Sands: Exploring the Political Foundations of SUFA,” among others. David Zussman is the former president of the Public Policy Forum and now executive vice-president and COO of EKOS Research Associates Inc. — we wish him well in his new functions.

Joining the Board as directors are Dr. Ann Fitz-Gerald, Director of the Centre for PostConflict Transitions Studies at Cranfield University, UK, and author of several IRPP studies, including a *Choices* entitled “Military and Postconflict Security: Implications for American, British and Other Allied Force Planning and for Postconflict Iraq”; and Dr. Wanda Wuttunee, Associate Professor of Native Studies at the University of Manitoba and author of the forthcoming book *Lessons in Aboriginal Economic Resilience and Vision*. Jodi White, the new president of the Public Policy Forum, and Antonia Maioni, Director of the McGill Institute for the Study of Canada, who was a member of the Research Committee of the Board, join the Institute as members representing compatible organizations.

From time to time the IRPP invites non-Board members to join the Research Committee of the Board. This year Dr. Peter Aucoin, the Eric Dennis Memorial Professor of Government and Political Science and Professor of Public Administration at Dalhousie University, has agreed to share his insights and expertise with the committee. Lastly, the IRPP’s by-laws require that there be a majority of external members on the Investment Committee. John Lane, who served for many years on the committee, has retired. Hugh Cleland, executive vice-president and portfolio manager at Northern Rivers Capital Management Inc., has agreed to join the committee.

I wish to extend sincere thanks to all those departing for their valuable contributions to the IRPP’s work. I would also like to welcome all incoming members of the Board and the Institute, and I look forward to another productive year in 2004-05.

THE HONOURABLE BOB RAE, P.C., O.C., Q.C.
CHAIR





STRATEGIC PLAN 2004-09

This last year saw a wide range of research initiatives pursued both collaboratively and under IRPP's own auspices. As 2003-04 was the last year of the five-year research program begun in 1999, a new strategic plan was developed by my colleagues and me in collaboration with our board. The new research plan for 2004-09, while incorporating many existing research priorities, also launches the IRPP in some new directions. In view of the increasing linkages between developments abroad and policy options at home and the need to better facilitate integration between the two spheres in the policy development process, the following core question will determine our research priorities for 2004-09:

What Canadian public policies, domestic and foreign, will most likely reinforce economic and social progress at home and abroad within a context of democratic values, international security and economic opportunity?

The new IRPP research plan reflects shifts in geopolitical realities and the "intermestic" linkages between international issues and domestic policy. It also takes major demographic trends and urban issues into consideration. Instead of there being a separate nexus research stream, all IRPP research thematics will reflect a nexus approach, that is, a commitment to explore the governance, social and economic policy implications for all issues considered.

RESEARCH THEMATICS AND PROGRAMS

With the new core question in mind, IRPP research programs will be grouped under three broad thematics: Canada and the World, Economic Growth and Social Progress, and Governance in the New Century. On the basis of these new thematics, colleagues are developing a slate of new research programs. For the next five years existing programs will be incorporated under the new rubrics and in some cases expanded. Research thematics and programs are outlined below.

CANADA AND THE WORLD

This thematic will explore optimal strategic approaches to foreign, defence and development policies for Canada's geopolitical interests, in four areas.

- The Future of North American Relations
- Defence, Diplomacy and Development
- Canada's Foreign Aid Strategy
- Postconflict Reconstruction and Stabilization

ECONOMIC GROWTH AND SOCIAL PROGRESS

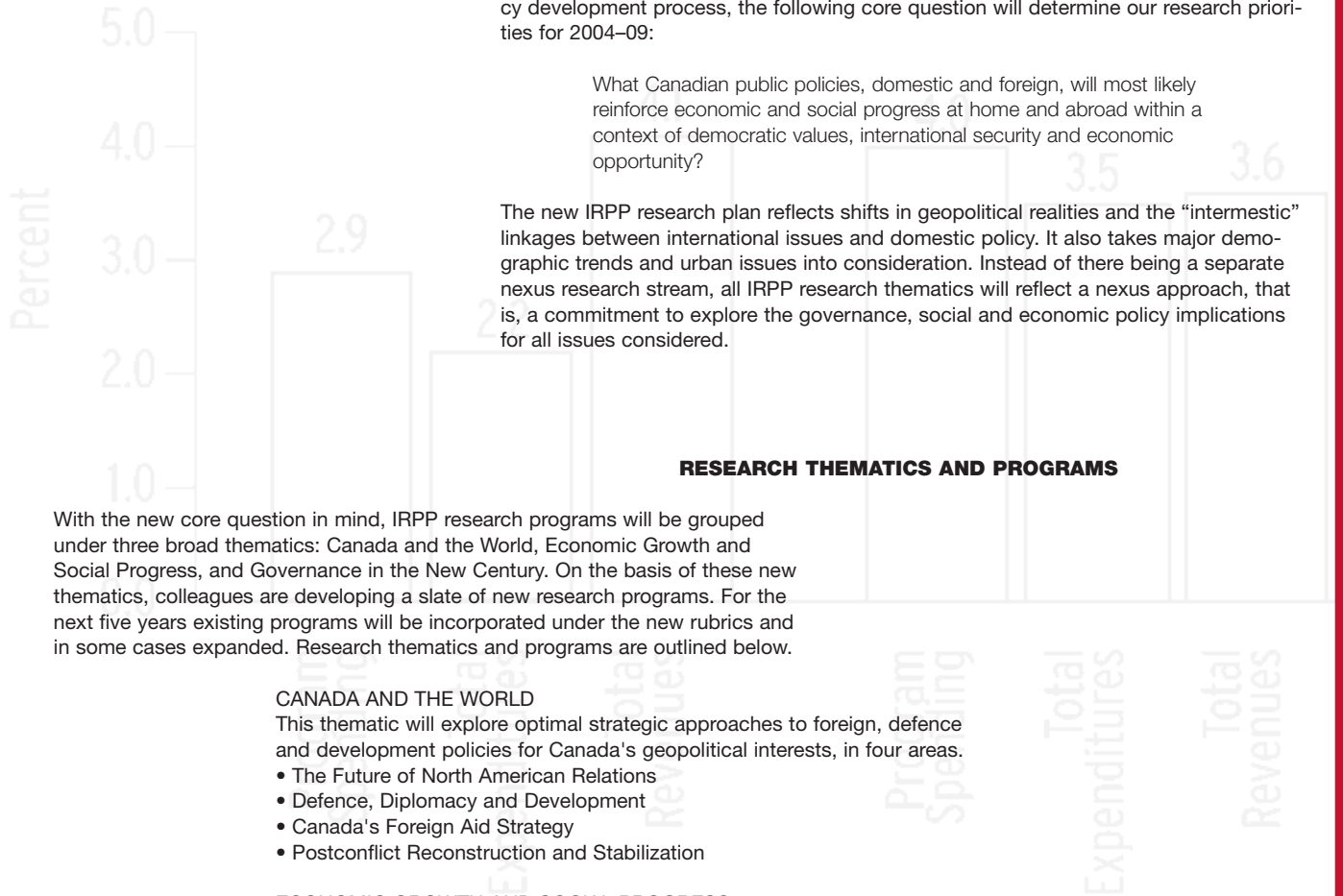
This thematic will analyze policies that will sustain economic growth and social progress in light of important domestic demographic trends and a more competitive global environment. Research themes under consideration include:

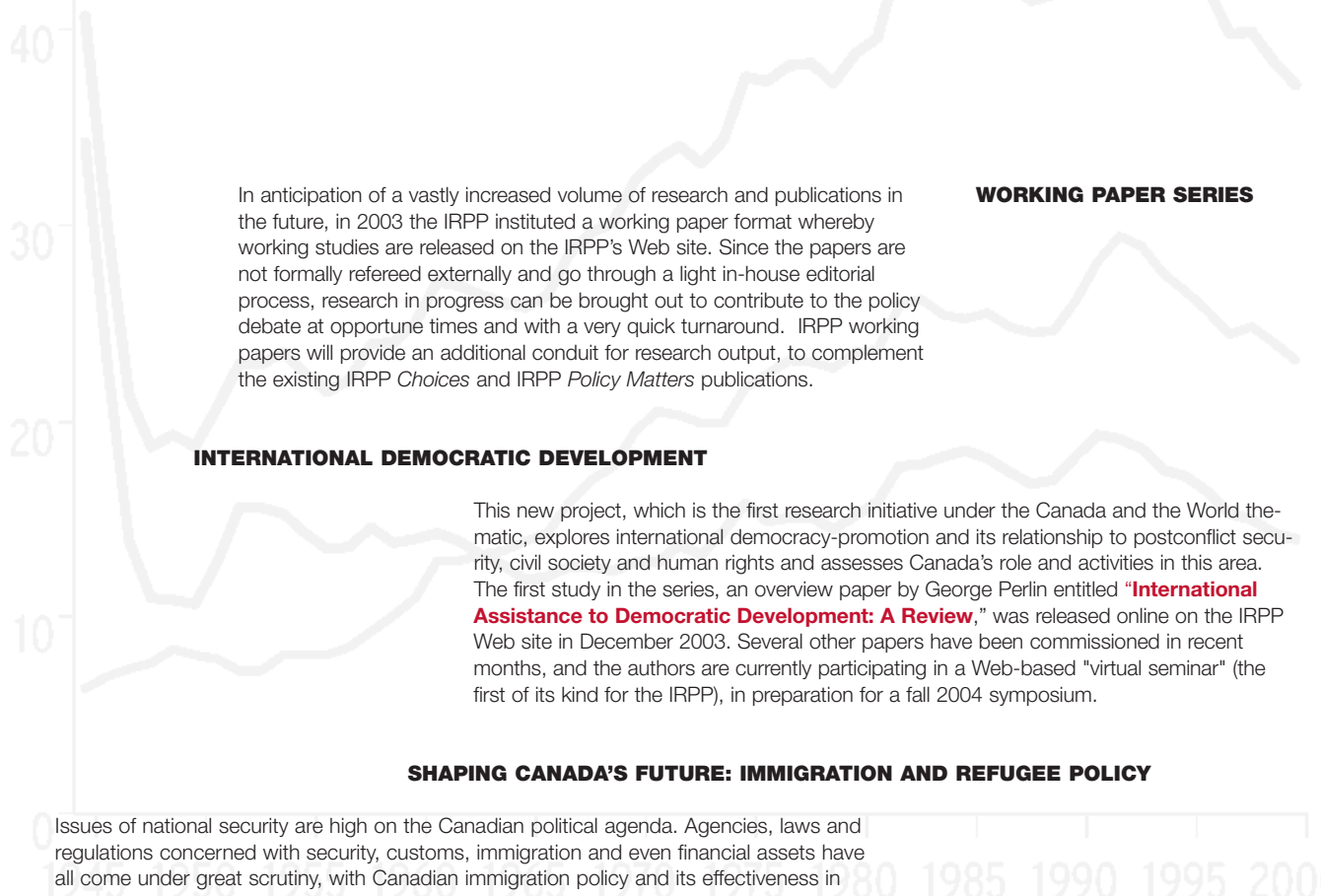
- Canada's Social Policy Toolkit
- The Policy Implications of an Aging Population
- Human Capital: Linkages and Challenges
- Economic Opportunity and Social Well-Being
- Competitiveness and Productivity

GOVERNANCE IN THE NEW CENTURY

This thematic examines key governance challenges and risks that Canada will face in the 21st century. Research themes under consideration include:

- The Next Stages of Democratic Reform
- Accommodating the Economic and Social Requirements of Cities
- Fiscal Balance in the Federation
- Defining the Public and Private Sector Roles in Public Policy





In anticipation of a vastly increased volume of research and publications in the future, in 2003 the IRPP instituted a working paper format whereby working studies are released on the IRPP's Web site. Since the papers are not formally refereed externally and go through a light in-house editorial process, research in progress can be brought out to contribute to the policy debate at opportune times and with a very quick turnaround. IRPP working papers will provide an additional conduit for research output, to complement the existing IRPP *Choices* and IRPP *Policy Matters* publications.

WORKING PAPER SERIES

INTERNATIONAL DEMOCRATIC DEVELOPMENT

This new project, which is the first research initiative under the Canada and the World thematic, explores international democracy-promotion and its relationship to postconflict security, civil society and human rights and assesses Canada's role and activities in this area. The first study in the series, an overview paper by George Perlin entitled "**International Assistance to Democratic Development: A Review**," was released online on the IRPP Web site in December 2003. Several other papers have been commissioned in recent months, and the authors are currently participating in a Web-based "virtual seminar" (the first of its kind for the IRPP), in preparation for a fall 2004 symposium.

SHAPING CANADA'S FUTURE: IMMIGRATION AND REFUGEE POLICY

Issues of national security are high on 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 centre. Recent 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 broader debate over the ability of the current system to meet its stated humanitarian and economic goals while contributing to shared security objectives. With the continuing importance of this issue and its broad ramifications for economic and social policy and its governance implications, the IRPP's extensive research agenda on Canada's immigration and refugee policy continues to generate important work under the direction of Geneviève Bouchard.

The focus of research and other activities in the past year has been on issues of sovereignty versus integration, security and border controls, and reconciling humanitarian and economic policy goals. In "**Intégration économique et sécurité : nouveaux facteurs déterminants de la gestion de la migration internationale**" (*Choices*, March), Hélène Pellerin examines the multilateral initiatives for managing migration at the European, North American and international levels. The author observes that "these initiatives have evolved within the larger context of regional economic integration, but also – and increasingly since September 11, 2001 – in a context in which more and more countries have become pre-occupied with the security of their territorial boundaries."

Exploring immigration from the perspective of ethics, the first of three co-sponsored conferences, "The Ethics of Immigration Policy: Seeking the Common Good," was held in Dallas in collaboration with the John Goodwin Tower Center for Political Studies at Southern Methodist University in April 2003. The IRPP organized the second, entitled "**North American Integration: Migration, Trade and Security**," held in Ottawa in April 2004, and the third is slated to take place in Mexico City in 2005.

STRENGTHENING CANADIAN DEMOCRACY

Since the 1960s, increased levels of education and changing social values have prompted calls for greater democratic participation, both in Canada and internationally. The issue has recently gained new prominence in the public debate following a wave of democratic reform initiatives underway in several provinces. The Strengthening Canadian Democracy research program, upon which the IRPP embarked in 1999, has been at the forefront of research and debate in this area. It explores some of the democratic lacunae in Canada's political system, focusing on how the legitimacy of our system of government can be strengthened to prevent further disengagement and public alienation from the political process.

The Institute has been very active in this area in the past year, with several events and publications. Isabelle Fortier, in **"From Scepticism to Cynicism: Paradoxes in the Discourses of Administrative Reform,"** and Christian Rouillard, in **"From Cynicism to Organizational Disillusion: New Public Management as Confusion Factor,"** examine the new public management in a single *Choices* appearing in August 2003. Attempting to emulate private-sector practices to reform the public service, they say, has contributed to cynicism and decreased morale among civil servants. Also in August, in **"From Enumeration to the National Register of Electors: An Account and an Evaluation"** (*Choices*), Jerome Black reflects on the permanent voters' list, which replaced door-to-door enumeration carried out before every election. It has had, he says, a "debilitating impact on voter turnout," and has increased inequalities in participation across social groups. The author concludes that we should consider incorporating "enumeration-like" activities to address these inequalities.

Following last spring's provincial election in Quebec, the IRPP hosted a working lunch in Toronto at which the president of BCP Group, John Parisella, shared his views on the potential implications of the results for Canadian federalism. In anticipation of electoral reform initiatives in BC, Quebec and PEI, the IRPP held a second roundtable on **"The Reform of Democratic Institutions,"** in Montreal in September 2003. This conference featured the IRPP's first live simultaneous audio webcast, and was addressed by Jacques Dupuis, Quebec Minister for the Reform of Democratic Institutions. Two working luncheons with major Canadian political leaders were held in Toronto. Stephen Harper, then Alliance Party leader and leader of the Opposition, talked about "Priorities and Challenges for Canadians" in May 2003, and Jack Layton, leader of the NDP, spoke in October 2003 about areas in municipal, environmental, tax and social policy where Canadians can "do better." An invitation was issued to Prime Minister Martin, but he could not attend due to scheduling difficulties.

NATIONAL SECURITY AND MILITARY INTEROPERABILITY

Against the backdrop of one of the defining international events of recent history, the war on Iraq, the Institute was honoured to host the US Ambassador to Canada, Paul Cellucci, at a working breakfast in April 2003 in Montreal on the state of Canada-US relations. The IRPP also collaborated with Stéphane Roussel, a Canada Research Chair in Canadian Foreign and Defence Policy (UQAM), for a Montreal workshop entitled "The Quest for North American Security Trilateralism" in April 2003, in which Her Excellency María Teresa García Segovia de Madero, Ambassador of Mexico to Canada, and Bernadette Allen, General Consul of the United States in Montreal, participated.

In a timely study entitled **"Military and Postconflict Security: Implications for American, British and other Allied Force Planning and for Postconflict Iraq,"** released in April 2003, Dr. Ann Fitz-Gerald argues that countries intervening militarily in civil wars, collapsed states and transitional societies need to follow up their war planning with peace planning, giving priority to re-establishing security after the shooting is over. They must also consider the wider security agenda as part of their overall mandate, campaign planning and training curriculum.

Phillippe Lagassé is the author of the first of the IRPP's working papers, **"The SORT Debate: Implications for Canada"** (October 2003), which concludes that Canada should cooperate with American ballistic missile defence. In his view it would secure NORAD's position, benefit the Canadian forces and reinforce Canada's commitment to jointly protect and secure North America. Also published as a working paper was a study by Sean Maloney, **"Are We Just Peacekeepers? The Perception Versus the Reality of Canadian Involvement in the Iraq War"** (November 2003). He argues that "Canada had the military means to contribute in an effective and salient fashion to Operation Iraqi Freedom in 2003." Joseph T. Jockel, in **"Four U.S. Military Commands: NORTHCOM, NORAD, SPACECOM, STRATCOM – The Canadian Opportunity"** (working paper, November, 2003), concludes that Canada's military is well positioned to pursue the country's interests as the US considers the future of homeland defence, whether it is with NORTHCOM or some other command entity.

[NATIONAL SECURITY AND MILITARY INTEROPERABILITY]

Looking at problems of governance in Canadian defence policy, Douglas L. Bland and Roy Rempel, in "A Vigilant Parliament: Building Competence for Effective Parliamentary Oversight of National Defence and the Canadian Armed Forces," maintain that since the mid-1960s Parliament has been ineffective in overseeing foreign affairs and defence expenditures and policies (Policy Matters, February 2004). The study proposes reducing party discipline and partisanship in committee deliberations, increasing the emphasis on examining estimates and funding, and appointing qualified military officers of suitable rank to provide research support for committee work.

HEALTH AND PUBLIC POLICY

IRPP activities in the past year in this area have been mostly related to the strategic policy issues raised by the findings and recommendations of the Standing Senate Committee on Social Affairs, Science and Technology and the Romanow Commission. The Honourable Michael Kirby, Chairman of the Standing Committee on Social Affairs, Science and Technology, provided his reaction and analysis of the 2003 First Ministers' Accord on Health Care Renewal and the subsequent federal budget at a working lunch in Montreal in April 2003. In "Medicare as a Moral Enterprise: The Romanow and Kirby Perspectives," a Policy Matters released in October 2003, IRPP Senior Fellow Thomas Courchene is critical of the Romanow Report's underlying view of "Canadian values." He argues that these values "fall well short of a blueprint" for a successful transition of Canada's health care system into the 21st century. And further, he says, a spirit of experimentation is vital if we are to make progress in modernizing health care, in the same way as Tommy Douglas' experiment in Saskatchewan helped launch medicare.

One chapter of the much anticipated volume edited by France St-Hilaire and Harvey Lazar, Money, Politics and Health Care: Reconstructing the Federal-Provincial Partnership, was prereleased online in October 2003 to coincide with the meeting of the federal, provincial and territorial finance ministers. Written by the editors together with Jean-François Tremblay, it sifts through the federal and provincial "he said, she said" rhetoric and recent studies on fiscal imbalance. The authors conclude that the comparatively strong federal fiscal position "can be viewed as an indication of vertical fiscal imbalance," but caution readers on the problems with existing measurements. Reacting to this analysis, Bruce Little of The Globe and Mail wrote that the IRPP is "one of the few sources of neutral commentary on the subject." As well, following the official release of the book in January 2004, John Ibbitson, also of The Globe and Mail, commented that "the Lazar—St-Hilaire report does the best job yet of penetrating the fog," suggesting that the first ministers should take the time read it before their first meeting with Prime Minister Martin. The book's central message is that continual federal-provincial squabbling over health care funding has hampered the reforms needed to ensure the quality and sustainability of health care for future generations. According to St-Hilaire, Lazar and Tremblay, a "disproportionate share of the financial and political risk associated with the uncertainties of the health care enterprise is borne by the provinces." They recommend a federal cash transfer contribution in the order of 20 to 25 percent of total provincial health costs to remedy the imbalance. The book's release gave rise to numerous media interviews with the authors and requests from senior government officials for briefings.

CANADA'S OPTIONS IN NORTH AMERICA

The ongoing process of economic integration between Canada, the United States and Mexico raises important issues of economic policy and governance. The security concerns that have gained prominence since September 11, 2001 have been superimposed on these issues. Many whose livelihoods depend on effective trade and investment links between the three countries favour not only streamlining cross-border processes by addressing security concerns, but also pursuing even more dynamic integration than that provided by trade agreements such as the FTA and NAFTA. However, the requirements of more secure US borders and deepening economic linkages raise concerns about Canada's room to manoeuvre on a wide range of policy fronts.

First System 1878-1917

Transition 1917-35

Second System 1935-57

Transition 1957-63

Third System 1963-84

[CANADA'S OPTIONS IN NORTH AMERICA]

Under the direction of Senior Economist Daniel Schwanen, this research program examines the options and tradeoffs available to Canada on a broad, strategic level and on some key issues related to North American integration. In April 2003, a distillation of some of the research conducted under the aegis of this series was published in a major *Policy Options* article by Daniel entitled **"Let's Not Cut Corners: Unbundling the Canada-US Relationship,"** in which he argues that the security dimension of Canada-US relationships is best handled as a priority distinct from that of economic integration. The article was subsequently translated into Spanish and published by the social science review *Perfiles Latinoamericanos* in their December 2003 issue, and in French by "L'Annuaire du Québec" (2004).

April 2003 also saw the publication of **"See You in Washington? A Pluralist Perspective on North American Institutions"** (*Choices*), by Robert Wolfe. He argues against new continent-wide institutions, making the case that working through existing agreements and using a more kaleidoscopic approach instead would maximize the results for Canada. It would also, he maintains, avoid the creation of central institutions based in Washington, which would not be in Canada's interest. A *Policy Matters* by William A. Dymond and Armand de Mestral, **"New Destinations in International Air Policy"** (October 2003), assesses the implications for Canada of prospective EU/US negotiations and urges the Canadian government to negotiate an "open transatlantic aviation market" with the United States and the European Union. The authors' op-ed ("Ottawa's Voice Needed in Transatlantic Airline Talks") appeared in the *Financial Post*.

To mark the 10th and 15th anniversaries of NAFTA and CUFTA, in December 2003 the IRPP released, online, **"Free Trade and Canada - 15 Years Later,"** by Daniel Schwanen. He examines the latest studies and data pertaining to the impact of both agreements, and concludes that free trade has promoted a more modern and productive Canadian manufacturing sector, which has helped sustain well-paying jobs in that sector.

Canada-US relations in the post-September 11 era, as well as the day-to-day challenges involved in reaching New York's critical audience in the financial and entertainment sectors, were discussed at a Toronto working lunch in December 2003 with Pamela Wallin, Canadian Consul General to New York City. North American integration and the challenges presented by a globalized world economy were also the focus of discussions at a Toronto lecture and launch of the compendium of lectures in honour of Dr. Sylvia Ostry, *At the Global Crossroads*, in January 2004. The book includes addresses by Jacques Delors, Renato Ruggiero and Paul Volker.

ECONOMIC POLICY AND GROWTH

This research program explores economic policy issues, including fiscal policy and factors affecting economic growth. Public finance issues (taxes, debt and equalization) featured most prominently among the activities of the Institute in this area over the past year. In a working paper entitled **"Modern Welfare States under Pressure: Determinants of Tax Policy in a Globalizing World"** (February 2004), Christian Lammert, a young scholar from Germany, disputes the conventional globalization thesis of a race to the bottom. He reveals instead a continued increase in tax rates and tax revenues. Comparing statistics from the OECD, Canada, USA, Sweden and Germany, the author argues that "overall increases in government taxation since 1965 have mainly been produced by increases in direct and personal income taxes and social security contributions." Lammert says that the "race to the bottom" thesis also errs in predicting a convergence of national tax regimes. His op-ed, co-authored by Jeremy Leonard, appeared in the *Financial Post*.

In response to Finance Minister Ralph Goodale's request for public input on the issue of appropriate debt levels for Canada as part of his pre-budget consultations last January, the IRPP pre-released the introductory chapter of an edited volume entitled ***Is the Debt War Over? Dispatches from Canada's Fiscal Frontline***, by Christopher Ragan and William Watson. Based on analysis provided by some of the country's leading public finance experts, Ragan and Watson conclude that the debt war is not over, and that "the federal debt-to-GDP ratio needs to be reduced to roughly 25 percent of GDP" sooner rather than later. The book, published in collaboration with the McGill Department of Economics, was released in Ottawa at a well-attended book launch prior to the federal budget in February 2004. The Institute also held a Toronto working lunch in March with some of the contributors to the volume. Op-eds by the two editors ran in the *Ottawa Citizen*, *The Gazette* and the *Financial Post*.

[ECONOMIC POLICY AND GROWTH]

An experts' and practitioners' workshop on the five-year renewal of fiscal arrangements for equalization, held in Montreal in April 2003, was followed by the release in March 2004 of Thomas Courchene's *Choices* study "**Confiscatory Equalization: The Intriguing Case of Saskatchewan's Vanishing Energy Revenues.**" In this controversial paper, Courchene argued that Canada's equalization program has the effect of confiscating Saskatchewan's energy revenues, which are subject to a tax-back rate of 125 percent. Moreover, says Courchene, provinces with no energy revenues pocket significant amounts from energy related equalization, from \$16 million for PEI to a whopping \$872 million for Quebec. The author concludes that the "cumulative impact represents a wholesale assault on the fiscal, incentive and competitive environments of Saskatchewan's energy sector, with obvious and dramatic spillovers to the province's entire budgetary environment." Courchene's full-page op-ed ("Saskatchewan's Extra Burden") was published in *The Globe and Mail* the day of the release. In the wake of this study and the publication of the op-ed, Saskatchewan's Department of Finance confirmed that the federal government would:

- (1) pay \$120 million to Saskatchewan in respect of high tax-back rates on Crown lease revenues;
- (2) consider remedial action in the future when tax-back rates are extremely high;
- and (3) conduct a comprehensive review of the equalization of resources as part of the next renewal.

In "**Tax Design for a Northern Tiger**" (*Choices*, March 2004), released prior to the federal and provincial budgets, Jonathan Kesselman explains how excessive taxation of savings and investment impedes the efficiency and competitiveness of Canada's economy. He argues that "if the mix and structure of taxes are efficiently designed, the level of taxes in Canada need not hinder competitiveness"; thus governments will continue to be able to fund the level of public services demanded by Canadians. He recommends a tax reform agenda for Canada aimed at improving our competitiveness by shifting taxation more toward consumption and employment bases. The author's op-ed ("What Tax Crisis?") ran as part of a series of commentaries on tax reform in the *Financial Post*.

David Brown, Chair of the Ontario Securities Commission, was the guest speaker at a working lunch in Toronto in February 2004. His presentation touched on a number of contemporary issues confronting the commission such as the need to equip Canada with a securities regulatory model for the 21st century, insider-trading, the OSC's enforcement presence in Canada's capital markets, the ongoing probe of the mutual fund industry and Ontario's new proposed governance guidelines for companies.

It is clear that policy-makers in modern democracies will have to come to grips with the need for new modes of governance in the context of a changing global order. Indeed, it has become trite to say 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. In order to promote in-depth research and deliberations on the impact of social, economic and technological forces on governance and to explore how Canada and its regions can best meet these new challenges, the IRPP holds a biennial symposium entitled "The Art of the State."

THE ART OF THE STATE

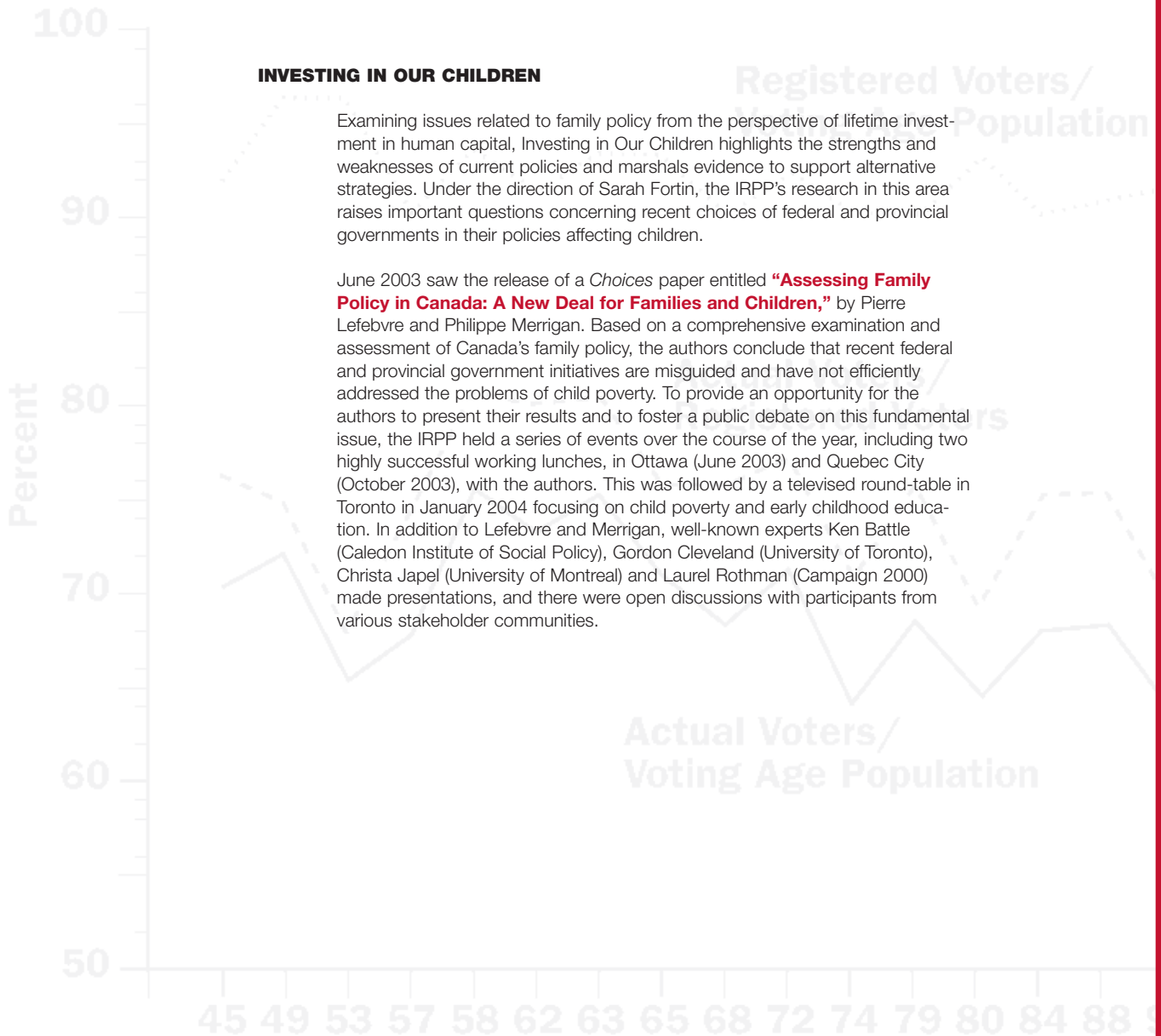
In early 2003, at a book launch in Ottawa, the Institute released the collections of essays generated by the first The Art of the State conference entitled **Governance in a World Without Frontiers** (March 2003). Among those present at the event, in addition to Thomas Courchene and Donald Savoie (the book's editors), were David Dodge, Governor of the Bank of Canada, and IRPP board member Peter Dobell of the Parliamentary Centre.

In the fall of 2003, again in collaboration with Professor Savoie and the Canadian Institute for Research on Regional Development (CIRRD), the IRPP held its second The Art of the State symposium entitled, "Thinking North America: Prospects and Pathways," in Montebello, Quebec. Given the time-sensitive nature of the topics at hand, the papers produced for this conference are being published in a series of folios released individually as the papers are finalized. The eight folios, including an overview and conclusions by editors Thomas J. Courchene, Donald J. Savoie and Daniel Schwanen (to be published last), will form a complete boxed set (another first for the IRPP!).

[THE ART OF THE STATE]

Two folios were released in March 2004. In **“A New Accommodation with the United States: The Trade and Economic Dimension,”** Carleton University’s Michael Hart argues that it is now time for Canada and the United States to take cooperative steps to enhance the security and prosperity of their citizens. The options are clear, according to Hart. “Canada and the United States need to take deliberate steps to bring the architecture of their relationship into line with the challenge and fact of deepening interdependence as well as with the political and security realities ushered in by the events of 9–11.” Hart’s commentary was published by the *National Post*.

In **“The Role of Subnational Governments in North American Integration,”** Earl Fry of Brigham Young University examines how state and provincial capitals are influencing the process of continental economic integration. He reveals a dramatic increase in cross-border governmental linkages at the subnational level and argues this reflects the growing economic interdependence between the three North American countries. The remaining folios will be released in 2004.



ACCOMMODATING DIVERSITY

The fiscal year saw the publication in December 2003 of *The Conditions of Diversity in Multinational Democracies*, edited by Alain-G. Gagnon, Montserrat Guibernau and François Rocher. The book launch also served as a holiday season celebration for all the IRPP collaborators, some of whom came from Europe for the occasion. Collecting the work of 18 leading scholars from Europe and North America, the book addresses one of the main challenges of the next few decades for countries like Canada, Spain and Great Britain, that of accommodating multinationalism within their borders.

CONSTRUCTIVE AND CO-OPERATIVE FEDERALISM? A SERIES OF COMMENTARIES ON THE COUNCIL OF THE FEDERATION

On October 24, 2003 the provincial premiers gathered to finalize the mandate and structure for a Council of the Federation, a new mechanism designed to improve intergovernmental relations. In anticipation of that meeting, the IRPP, in collaboration with the Institute of Intergovernmental Relations (IIGR) at Queen's University, brought together leading experts on federalism and public policy to prepare a series of 13 essays that explore the challenges facing the new body and its implications for the future of the federation. The series is called *Constructive and Co-operative Federalism? A Series of Commentaries on the Council of the Federation*. The papers, edited by Doug Brown (IIGR) and France St-Hilaire (IRPP) and released on the two institutes' Web sites, are listed below.

- **"Getting Things Done in the Federation: Do We Need New Rules for an Old Game?"** by Douglas M. Brown (October 2003)
- **"The Council of the Federation: From a Defensive to a Partnership Approach,"** by André Burelle (October 2003, in French and English with an addendum in French only)
- **"The Council of the Federation: Conflict and Complementarity with Canada's Democratic Reform Agenda,"** by Roger Gibbins (October 2003)
- **"Managing Interdependencies in the Canadian Federation: Lessons from the Social Union Framework Agreement,"** by Harvey Lazar (October 2003)
- **"The Health Council of Canada Proposal in Light of the Council of the Federation: A Test of Constructive Intergovernmental Relations?"** by Greg Marchildon (October 2003)
- **"Council of the Federation: An Idea Whose Time Has Come,"** by J. Peter Meekison (October 2003)
- **"The End of a Model? Quebec and the Council of the Federation,"** by Alain Noël (October 2003)
- **"Quebec and Interprovincial Discussion and Consultation,"** by Claude Ryan (October 2003, in English and French)
- **"Expanding the Partnership: The Proposed Council of the Federation and the Challenge of Globalization,"** by Hamish Telford (October 2003)
- **"Intergovernmental Councils in Federations,"** by Ronald L. Watts (October 2003)
- **"Counsel for Canadian Federalism: Aboriginal Governments and the Council of the Federation,"** by Frances Abele and Michael J. Prince
- **"Some Personal Reflections on the Council of the Federation,"** by Bob Rae (November 2003)
- **"A Short Path to Revitalized Federalism,"** by Tom Kent (January 2004)

Concluding the social union research program, *Forging the Canadian Social Union: SUFA and Beyond*, edited by Alain Noël, France St-Hilaire and Sarah Fortin, was published in November 2003. This edited collection brings together seven already published *Policy Matters* papers and an original introduction. Social policy and intergovernmental relations experts examined the various dimensions and the prospects of the 1999 Social Union Framework Agreement (SUFA), which the editors characterize as "the most ambitious attempt yet to design an explicit framework for the social union." Overall the series of essays presents a rather severe assessment of the accord, which it considers to be a missed opportunity to improve intergovernmental relations in Canada.

COMPLETED RESEARCH PROGRAMS

POLICY OPTIONS

Under the editorial direction of L. Ian MacDonald, *Policy Options* has been re-positioned in the last year as Canada's public policy news magazine. In the monthly thematic, the magazine aims to draw out the perspectives shaping the main issues of Canada's current policy and political debates. For instance, in **October 2003**, *Policy Options* went to the heart of the same-sex marriage debate with a timely cover package on the fundamental question of who decides – Parliament or the courts. The **December 2003 – January 2004** double issue featured "Paul Martin's Briefing Book," with 16 articles on a full range of issues confronting the new prime minister. In **February 2004**, *Policy Options* examined Canada's cities, tapped as a priority by the new Liberal government, and in March 2004 the magazine featured the "Revival on the Right." With the Conservative leadership convention coinciding with the Liberal sponsorship scandal, the magazine looked at the challenges and opportunities for the rebranded Tory party.

But *Policy Options*' most widely remarked cover package was the **June 2003** issue's ranking of the best prime ministers of the last 50 years on the occasion of the golden anniversary of the Queen's coronation. Our panel of 30 public policy experts (which did not include any IRPP or *Policy Options* staff), historians, economists and journalists, working independently, chose Lester B. Pearson, by a wide margin, for the quality and quantity of his domestic achievements and his sure-handed conduct of foreign policy. Brian Mulroney was second, and Pierre Trudeau was a close third, while Louis St-Laurent ranked fourth, Jean Chrétien fifth, and John Diefenbaker sixth among the full-term prime ministers appraised. The survey received front-page coverage from coast to coast.

Under the direction of Associate Editor Sarah Fortin, *Policy Options* published a greater number of articles in French, and continued to be a leading Canadian magazine in the field of social policy. The re-design of the magazine continued, with more photographs and charts to illustrate articles. The posting of *Policy Options* on our Web site at the beginning of the month, rather than the end, not only makes the magazine available to a broader public, free of charge and on a timely basis, it has also resulted in another year of record Web site hits and downloads.

The quality of the magazine was recognized with the nomination of "The Potemkin Village of Canadian Foreign Policy," by Michael Hart and Bill Dymond, for a Canadian Magazine Award for best article in the public policy category. Now in its 25th year, *Policy Options* has been called "Canada's premier public policy magazine."

IRPP.ORG The IRPP's Web site enjoyed another year of strong growth in 2003–04. In the 12 months ending March 31, 2004, there were nearly 190,000 visitors to www.irpp.org, a 40 percent increase over the previous fiscal year. These visitors requested over three-quarters of a million documents and publications, of which about 50 percent were *Policy Options* articles, 20 percent *Choices* and *Policy Matters* studies, and 30 percent working papers, conference papers, speeches or other documents. As in past years, visitors included primarily government officials and policy-makers, journalists, and students.

In September 2003, improvements were made to the home page (as well as the publications and events sections) to give them a more appealing look and to make frequently requested material more easily accessible with fewer mouse clicks. There are now hot links to the current issue of *Policy Options* as well as to all publications released in the past three or four months.

[IRPP.ORG]

In 2003–04, the IRPP for the first time offered live webcasts of our public events: the September 2003 Montreal roundtable, “The Reform of Democratic Institutions II,” and the January 2004 Toronto roundtable on family policy. Each drew nearly 200 listeners, thus tripling the number of people who heard the proceedings live. Based on these positive experiences, the IRPP plans to offer live webcasts of selected future events.

The most important site improvement in 2003–04 was the creation of the “In the spotlight” section. Located prominently on the home page, its content changes weekly in response to policy issues currently in the news and directs visitors to relevant IRPP research, past and current, and is often accompanied by a press release. This exemplifies IRPP’s goal of integrating Web site content and media outreach into its communications program, with IRPP’s research at its core.

OUTREACH

Also in 2003, in terms of outreach to other think tanks, in July 2003 the IRPP hosted a working lunch for Naoki Tanaka, President of the 21st Century Public Policy Institution in Japan. In October 2003 there was a working lunch for Dr. Alex Sakellaropoulos of the Greek Institute for Social and Democratic Research, and there were discussions with visitors from the Institute Montaigne of France, who came to discuss Canadian federalism and the management of diversity. In June 2003, I gave the keynote address at the Centre for the Study of Canada and the United States at the University of Moscow, at a conference dealing with Canada-US relations following the events of September 11, 2001.

NEW APPOINTMENTS

Jasmine Sharma joined the IRPP in September as director of communications and public relations, and Jeremy A. Leonard was appointed senior fellow, policy outreach. Their collaborative effort is essential to ensuring that research work done by IRPP scholars reaches the widest possible appropriate audience.

Finally, I would like to extend my heartfelt thanks to staff and colleagues for their excellent work over the past year. I especially want to thank France St-Hilaire, our vice-president, research, and Suzanne Ostiguy McIntyre, our vice-president, operations, without whose forbearance, diligence, professionalism and rigour the IRPP’s capacity, reach and salience would be immensely diminished.

As president, I am very fortunate to have a Board of Directors that is not only supportive, but provides valuable and wide-ranging perspectives as well as intellectual depth in terms of their combined scholarly and practical experience in academic, government, business, culture and philanthropy. This is an invaluable asset for the Institute. My colleagues and I are privileged to work at the IRPP and to serve such a Board.

**HUGH SEGAL, C.M.
PRESIDENT**





REPORT OF THE INVESTMENT COMMITTEE

The objective of the Institute's Endowment Fund is to support the work of the Institute. The Investment Committee seeks to maintain the real value of the Fund after inflation, so that it can continue to produce significant financial support in future years. Therefore, rather than using the actual income generated by the Fund in any one year, the Board of Directors decided to withdraw annually an amount equal to five percent of the average of the last three years' capital value of the Fund at year-end. A three-year average is used to smooth the impact of changes in the market and increase predictability. Under this formula the money available from the Endowment Fund for fiscal year 2004-05 amounts to \$1,947,317, a reduction of approximately \$38,000 from the transfer generated the previous year. Capital gains of \$751,697 and dividend and interest income of \$1,223,948 during the last fiscal year together amounted to \$1,975,645.

Since January 1999, the investment management of the Endowment Fund has been carried out by KBSH Capital Management and Beutel, Goodman and Company Ltd. The two managers have different management styles. Beutel Goodman follows a value style, whereas KBSH emphasizes growth. To provide a basis for evaluating the performance of the Fund managers, the Investment Committee also established a benchmark, which consists of a four-year moving average of four indices: Canadian and foreign equities, Canadian bonds and mortgages. (See appendix below showing performance of the four indices separately.)

The following table reports performance of the managers relative to the benchmark over the previous year and over the past four years.

Periods Ended	31/3/04	31/3/03	31/3/02	31/3/01
Annual Return				
KBSH	21.80%	-12.50%	1.00%	-7.10%
Benchmark	21.20%	-8.90%	3.80%	-4.70%
Beutel Goodman	22.50%	-13.30%	11.70%	12.20%
Four-year Return (annualized)				
KBSH	0.00%	1.90%	7.10%	10.80%
Benchmark	2.30%	1.30%	4.90%	9.30%
Beutel Goodman	7.40%	3.70%	N/A	N/A

The combined market value of the Fund, including other current assets, amounts to \$39,699,758. Of this sum, \$1,734,777 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 counselors.

(REPORT OF THE INVESTMENT COMMITTEE)

	KBSH		BEUTEL GOODMAN	
MARKET VALUE	March 31, 2004 \$18,444,939	March 31, 2003 \$16,167,424	March 31, 2004 \$21,017,027	March 31, 2003 \$18,205,945
ASSET MIX				
Cash and Equivalent	2.17%	3.90%	3.35%	2.10%
Fixed Income	39.90%	44.00%	42.15%	46.60%
Canadian Equities	27.00%	24.60%	22.30%	20.30%
U.S. Equities	18.10%	16.50%	31.70%	31.00%
Non-N.A. Equities	12.80%	11.00%	.50%	—
Total Equities	57.90%	52.10%	54.50%	51.30%

During the past year KBSH increased its holdings in Canadian, U.S. and non-North American equities and reduced its fixed income exposure. Beutel Goodman increased its total equity position and reduced its exposure to fixed income.

Appendix

Annual Returns of Four Asset Classes

Periods Ended	31/3/04	31/3/03	31/3/02	31/3/01
S/P/TSX	37.73%	-17.60%	4.88%	-18.61%
SC BOND	10.78%	9.15%	5.10%	8.69%
MSCI WORLD	28.92%	-29.78%	-3.07%	-18.43%
SC MORTGAGE	8.92%	7.34%	7.61%	11.45%



FINANCIAL STATEMENTS

AUDITORS' REPORT

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, 2004 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 of 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, 2004 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 19, 2004**

(FINANCIAL STATEMENTS)

STATEMENT OF OPERATIONS AND CHANGES IN FUND BALANCES

year ended March 31, 2004 (in thousands of dollars)

	Operating Fund \$	Endowment Fund \$	2004 \$	Total 2003 \$
Revenue				
Investment income approved for operations (Note 3)	2,391	-	2,391	2,497
Deficiency of actual net investment income over investment income approved for operations (Note 3)	(589)	-	(589)	(2,099)
Total investment income, net	1,802	-	1,802	398
Publications	53	-	53	45
Other	196	-	196	288
	2,051	-	2,051	731
Expenses				
General research and support services	2,013	-	2,013	2,205
Policy Options magazine	292	-	292	248
Publication costs	206	-	206	284
Interest	5	-	5	5
Amortization of capital assets	18	-	18	25
	2,534	-	2,534	2,767
Deficiency of revenue over expenses before the undernoted item	(483)	-	(483)	(2,036)
Write-down of investments (Note 3)	-	-	-	(150)
Deficiency of revenue over expenses	(483)	-	(483)	(2,186)
Fund balances, beginning of year	1,391	32,505	33,896	36,082
Transfer from Endowment Fund for deficiency of total net investment income from investment income approved for operations (Note 3)	589	(589)	-	-
Transfer from Endowment Fund to fund retirement allowance liability	37	(37)	-	-
Fund balances, end of year	1,534	31,879	33,413	33,896

(FINANCIAL STATEMENTS)

STATEMENT OF FINANCIAL POSITION
as at March 31, 2004 (in thousands of dollars)

	Operating Fund \$	Endowment Fund \$	2004 \$	Total 2003 \$
Assets				
Current assets				
Cash	-	58	58	56
Term deposits and treasury bills	66	-	66	65
Accounts receivable				
Accrued income	-	240	240	245
Due from Endowment Fund *	1,732	-	-	-
Other	73	-	73	85
Prepaid expenses	50	-	50	35
	1,921	298	487	486
Marketable securities (Note 4)	-	33,377	33,377	33,744
Capital assets (Note 5)	55	-	55	47
	1,976	33,675	33,919	34,277
Liabilities				
Current liabilities				
Bank indebtedness (Note 6)	119	-	119	105
Accounts payable and accrued liabilities	161	43	204	222
Other accounts payable	-	21	21	-
Deferred revenue (Note 7)	60	-	60	14
Due to Operating Fund *	-	1,732	-	-
	340	1,796	404	341
Retirement allowance liability	77	-	77	40
	417	1,796	481	381
Deferred contributions (Note 8)	25	-	25	-
Net assets				
Invested in capital assets	55	-	55	47
Internally restricted (Note 9)	-	31,879	31,879	32,505
Unrestricted	1,479	-	1,479	1,344
	1,534	31,879	33,413	33,896
	1,976	33,675	33,919	34,277

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

(FINANCIAL STATEMENTS)

STATEMENT OF CASH FLOWS

as at March 31, 2004 (in thousands of dollars)

	2004	2003
	\$	\$
Cash flows from operating activities		
Deficiency of revenue over expenses	(483)	(2,186)
Adjustments for		
(Gain) loss on sale of investments	(751)	732
Write-down of investments	-	150
Amortization of capital assets	18	25
Retirement allowance	37	40
Changes in non-cash working capital items		
Accounts receivable	17	60
Prepaid expenses	(15)	47
Accounts payable and accrued liabilities	3	44
Deferred revenue	46	-
	(1,128)	(1,088)
Cash flows from financing and investing activities		
Purchase of capital assets	(26)	(4)
Purchase of investments	(25,455)	(23,778)
Sale of investments	26,573	24,960
Increase (decrease) in deferred contributions	25	(97)
	1,117	1,081
Net decrease in cash position	(11)	(7)
Cash position, beginning of year	16	23
Cash position, end of year	5	16
Represented by		
Cash	58	56
Term deposits and treasury bills	66	65
Bank indebtedness	(119)	(105)
	5	16

(FINANCIAL STATEMENTS)

NOTES

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*.

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.

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.

Investments

Investments are evaluated annually and are written down when there is a decrease in value that is other than temporary.

Fund accounting

The financial statements have been prepared in a manner which segregates the following balances:

Gains or losses on disposal of investments are calculated on the average cost basis and are included in the Operating Fund.

(i) The Operating Fund reports revenue and expenses related to program delivery and administrative activities of the Institute.

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.

(ii) The Endowment Fund reports resources internally restricted for endowment. Investment income earned on resources of the Endowment Fund is reported in the Operating Fund.

3. Interfund transfers

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 \$1,985,901 (2003 - \$2,139,751). In addition, the Board of Directors approved the use of \$405,548 for the current year's operations from the Operating Fund accumulated surplus (2003 - \$357,374) for a total of \$2,391,449.

Use of estimates

The presentation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Investment income earned consists of the following:

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.

	2004	2003
	\$	\$
Income earned on resources held for endowment	1,224	1,286
(Loss) gain on sale of investments of the Endowment Fund, net	751	(732)
Investment management and custodial fees	(173)	(156)
	1,802	398

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.

At March 31, 2003, an analysis was performed to determine if a loss in value of investments had been experienced which was deemed to be other than temporary. As a result of current stock market conditions, certain investment values were deemed to be impaired and resulted in a total write-down of \$150,000. The adjustment resulted in a decrease in the carrying value of marketable securities and fund balance (Endowment fund),

Publication costs

Publication costs are expensed as incurred.

(FINANCIAL STATEMENTS)

NOTES

as well as a charge in the Operating Fund with a corresponding increase in the operating interfund transfer amount.

At March 31, 2004, the same analysis was performed and no additional investments were determined to have a decline in value that was other than temporary.

4. Marketable securities

	2004		2003	
	Cost	Market value	Cost	Market value
	\$	\$	\$	\$
Bonds	16,448	17,145	16,297	16,506
Stocks	16,929	22,277	17,447	17,804
	33,377	39,422	33,744	34,310

5. Capital assets

	2004		2003	
	Accumulated Cost	Net book amortization	Net book value	2003 value
	\$	\$	\$	\$
Computer equipment	324	271	53	44
Office equipment	85	83	2	3
Leasehold improvements	63	63	-	-
	472	417	55	47

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, 2004, 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 the following:

	2004	2003
	\$	\$
Policy Options subscriptions	18	14
Trade migration and security conference	42	-
	60	14

8. Deferred contributions

Deferred contributions represent amounts received and restricted for purposes 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. Commitments

Operating leases

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:

	\$
2005	70,751
2006	69,034
2007	66,631
2008	70,216
2009	71,710

11. Comparative figures

Certain figures for 2003 have been reclassified in order to conform to the presentation adopted in the current year.