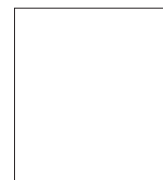




# PRESIDENT'S DIGEST

BY TOM KIERANS



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Whenever visitors come to the C.D. Howe Institute for the first time, they are invariably surprised that such a small organization speaks with such a big and powerful voice. “You produce all that research from this small staff?” they ask. Indeed, a staff of just 15 handles the research, writing, and project management for our studies, organizes and holds our policy meetings, does the production work for our books and commentaries, makes sure our lively web site is up to date, and keeps the whole operation moving smoothly. Of course, they rely on the work and expertise of the Institute's roster of eminent adjunct scholars and the many academics from coast to coast who agree to take on specific issues. But the core is a small, productive, and highly focused group of individuals that it is my great pleasure to work with.

Looking back over the past year, I note that our analysts have once again tackled some of the thorniest issues facing the country with their usual mixture of rigorous analysis and courageous policy advice. Whether it be Canada's policy on greenhouse gas emissions, culture, welfare, the coming “fiscal dividend,” or pension reform, I can honestly say we were there, with useful recommendations to Canadians, at the right time.

## ***Culture and the Environment: Tackling the Issues Head On***

In an increasingly interdependent world, policies often do not meet the objectives they pur-

port to attain, and they can be unnecessarily costly. Canada's need to avoid these outcomes is a theme taken up by Senior Policy Analyst Daniel Schwanen in papers covering two of the most contentious policymaking areas: cultural policy and the control of greenhouse gas emissions.

### *Cultural Policy: A Fresh Approach*

In *A Matter of Choice: Toward a More Creative Canadian Policy on Culture* (April 1997), Schwanen shows that there are reasonable grounds for policies to ensure that cultural products with Canadian cultural content continue to be available to Canadians. But he questions whether this objective should be met with current policies: public subsidies for cultural products with little Canadian artistic content, rules that restrict the public's choice of cultural products, and discriminatory actions toward foreign--owned firms willing to invest in and promote Canadian culture.

Instead, Schwanen argues, cultural subsidies should focus more on Canadian cultural talent, and policies requiring a certain minimum Canadian content across all Canadian TV and radio channels should be replaced by reserved “shelf space” for Canadian offerings in the coming 500--channel universe. Moreover, foreign investment restrictions should be eased or eliminated for those ready to make an original contribution to Canadian culture.

## The Kyoto Challenge

Canadians' concern about improving the quality of their environment has naturally led to calls to control and reduce emissions of so-called greenhouse gases (GHGs), which some scientists claim are one of the main causes of a potentially dangerous warming of the earth's atmosphere. In *Confronting the Greenhouse Challenge: Matching Protection with Risk* (October 1997), Schwanen examines the economic implications for Canada of international efforts to tackle the problem, which are expected to be hammered out this month in Kyoto, Japan.

Schwanen argues that Canada's emissions of GHGs can be reduced only over a period of decades if massive economic disruptions are to be avoided. Canada's economy and the lifestyles of Canadians are largely dependent on the use of carbon fuels — the main source of these gases. Large investments in machinery, buildings, and infrastructure such as roads underpin this usage. These cannot be replaced quickly without severe loss of income for the economy. Fortunately, Schwanen points out, scientific evidence on the accumulation of GHGs in the atmosphere shows that a gradual approach to reducing emissions is feasible. Indeed, they could be allowed to continue to rise for a time, provided the industrialized and newly industrializing countries can agree on a mechanism that, by putting a price on excessive emissions, ensures the eventual decline of GHG emissions to safe and sustainable levels.

Schwanen is skeptical of the approach most industrialized countries intend to take in Kyoto — that is, calling for immediate and large reductions in GHGs. Such action would impose unnecessary costs on their economies, Schwanen says, particularly on faster-growing ones such as Canada's. Furthermore, he warns, Canadians may well withhold their support of Canada's position on this issue until they have had a chance to express their views in extensive consultations.

## Welfare Reform: How the West Was Won

In a groundbreaking study, *Back to Work: Learning from the Alberta Welfare Experiment* (April 1997), policy analyst Ken Boessenkool examines the reasons for the halving of welfare use in Alberta in just three years after that province's 1993 reforms. Boessenkool explains that Alberta used a combination of early intervention (tighter eligibility and referrals to short-term labor force assistance) and reduced benefit levels to prevent large numbers of young Albertans from ever getting on the welfare rolls in the first place.

Where, however, did former welfare recipients go? Boessenkool finds scant evidence that they simply boarded buses for more welfare-generous British Columbia, moved *en masse* to federal assistance programs, or were living on the streets. Rather, most appear to have found work, some after short-term (mostly well under three months) provincial and federal training programs. Indeed, since its reforms were introduced, Alberta has recorded unprecedented job growth for those under age 24, a finding that prompted a *Globe and Mail* op-ed piece entitled "Has Alberta found a key to the youth employment puzzle?" Boessenkool's answer is a resounding yes.

## Pensions, Money, and the Fiscal Dividend: Maintaining the Watching Brief

Senior Policy Analyst Bill Robson continued to attract attention for his work in a number of areas during the year. Following on his 1996 work on the Canada Pension Plan (CPP), Robson has been tracking the development of the reform package now in front of Parliament in the form of Bill C-2, making numerous presentations on the proposed legislation to academic audiences, professional groups, provincial government officials, and the House of Commons Standing Committee on Finance. While favoring the reform package for

its moves to fuller funding of the plan, Robson argues that a better strategy would be to replace the current CPP with individual retirement accounts. This, he says, would better protect plan participants from the political pressures that led to today's unsustainable situation.

Robson is also coordinating a special series of Commentaries called "The Pension Papers." Three of them — *The Pension Squeeze: The Impact of the March 1996 Federal Budget*, and *Prudence and Performance: Managing the Proposed CPP Investment Board*, both by David Slater; and *From Tax Grab to Retirement Saving: Privatizing the CPP Premium Hike*, by James Pesando — appeared during the year. And to round out his work on pensions this year, Robson wrote *The Future of Pension Policy: Individual Responsibility and State Support*, published by the British--North American Committee.

### Monetary Policy

Another of the Institute's key briefs is monetary policy. The increase in the growth of the M1 monetary aggregate since summer 1996 is welcome for its promise of better economic growth over the near term. If sustained too long, however, the growth of M1 is incompatible with low inflation. Robson and Adjunct Scholar David Laidler sounded the alarm in February with a Backgrounder entitled "The Bank of Canada and the Economy: Has the Referee Put Away the Whistle?" Then, in July, Robson and Laidler joined forces with Ken Boessenkool to turn out a Commentary, *More Money Than Is Good for Us: Why the Bank of Canada Should Tighten Monetary Policy*, which took a close look at the various changes in Canada's economic environment and banking system that might help explain the rapid money growth. Their bottom line: avoiding another boom--bust cycle like that of the late 1980s and early 1990s requires the Bank of Canada to rein in money growth by pushing short--term interest rates up — a course that the Bank has since followed.

### Fiscal Policy

Federal fiscal policy also continues to get plenty of scrutiny. In a March Backgrounder, "Ottawa's Incredible Disappearing Act: Canadians Pay Billions More in Tax than the Budget Shows, and the Gap Is Growing," Robson took aim at the federal government's tendency to disguise spending — principally the goods and services tax credit and the child benefit — as tax breaks in the budget, making the government look smaller than it is. In June, the Institute published a volume edited by Robson and Adjunct Scholar William Scarth that was in quite a different vein. *Equality and Prosperity: Finding Common Ground* drew on the talents of several noted scholars to investigate the impacts of different taxes and transfers on income distribution and economic growth. They suggested that increased investment in human capital, financed through a progressive expenditure tax, was a key lever that governments could use to promote higher and more equal incomes.

Robson and Ken Boessenkool also made an important joint foray into the area of federal--provincial fiscal relations early in the year. Their *Ending the Training Tangle: The Case against Federal--Provincial Programs under EI* argued that Ottawa should stop diverting employment insurance premiums into federal and federal--provincial training programs of doubtful value, and turn the training field completely over to the provinces, allowing them to integrate training programs more fully with education and welfare.

### What to Do with the "Fiscal Dividend"

With the likelihood of a balanced federal budget now on the horizon, a heated debate has begun on what to do with the so--called fiscal dividend. And Robson's voice is again prominent. In addition to appearances at academic conferences, business roundtables, and the House of Commons Standing Committee on Finance, Robson led an Institute session on debt reduction and budget priorities in May. In an October Backgrounder, "The Paradox of the Fiscal Dividend: The Bigger It

**Policy Roundtables:  
Stimulating Thought on Critical Public Issues**

Under the direction of meetings planners Monique Cormier and Karen Walker, 1997 was another successful year of lively, informative Policy Roundtables. These informal, off-the-record sessions provide Institute members with the opportunity to hear and interact with key decisionmakers on critical public policy issues.

Highlights of this year's program included: Michael Adams, President, Environics Research Group Limited, on "Sex in the Snow: Canadian Social Values at the End of the Millennium"; a post-budget briefing by David Dodge, federal Deputy Minister of Finance; the Hon. David Crombie, on "Should Toronto Be Amalgamated?"; the Hon Lockwood Smith, New Zealand Minister for

International Trade, on "Electoral Change and Economic Reform in New Zealand and Free Trade in the Asia-Pacific Region"; Desmond Morton, Director, McGill Institute for the Study of Canada, on "What to Tell the Minister"; Daniel Johnson, leader of the Official Opposition in the Quebec National Assembly and Quebec Liberal Party leader, on "Recognition and Interdependence"; an economic and fiscal update from the Hon. Paul Martin, federal Minister of Finance; and the Hon. Preston Manning, leader of the Official Opposition and of the Reform Party of Canada, on "Current Issues Facing Canadians".

Looks, the Smaller It Gets," Robson took issue with federal plans to pre-spend forecast budget surpluses. At the end of November, he and William Scarth released *Out Front on Federal Debt Reduction: Programs and Payoffs*, a key Commentary on long-term targets for federal debt reduction and various options for achieving it. The study marshals arguments based on political credibility and economic modeling to make a strong case for sizable surpluses over the life of this Parliament, in order to earn a rapid fiscal dividend for tax cuts or new spending, while setting Canada on the road to a much lower federal debt burden — 20 percent of GDP rather than today's 70 percent — in time to deal with the fiscal stresses of the baby boomers' retirement.

***Hard Work Is  
Work Well Done***

**A**s the year comes to a close and I look back another highly productive year at the Institute, I am reminded of why I enjoy my role as President and CEO so much. Working with people who continually question the status quo, the accepted wisdom, the pat answer, is stimulating. Thinking is hard work. Looking at a problem multidimensionally is hard work. Being there at the right time is hard work. I think we do these things well. But there is no time to rest on our laurels. Next year beckons, and we're already getting set to send a few more bright ideas your way. Have a good holiday season.

The C.D. Howe Institute is a private, independent, nonprofit research and educational institution. For further information, contact: C.D. Howe Institute, 125 Adelaide St. East, Toronto, Ontario M5C 1L7; (416) 865-1904; fax (416) 865-1866; e-mail: cdhowe@cdhowe.org or visit the Institute's Internet web site at: <http://www.cdhowe.org>