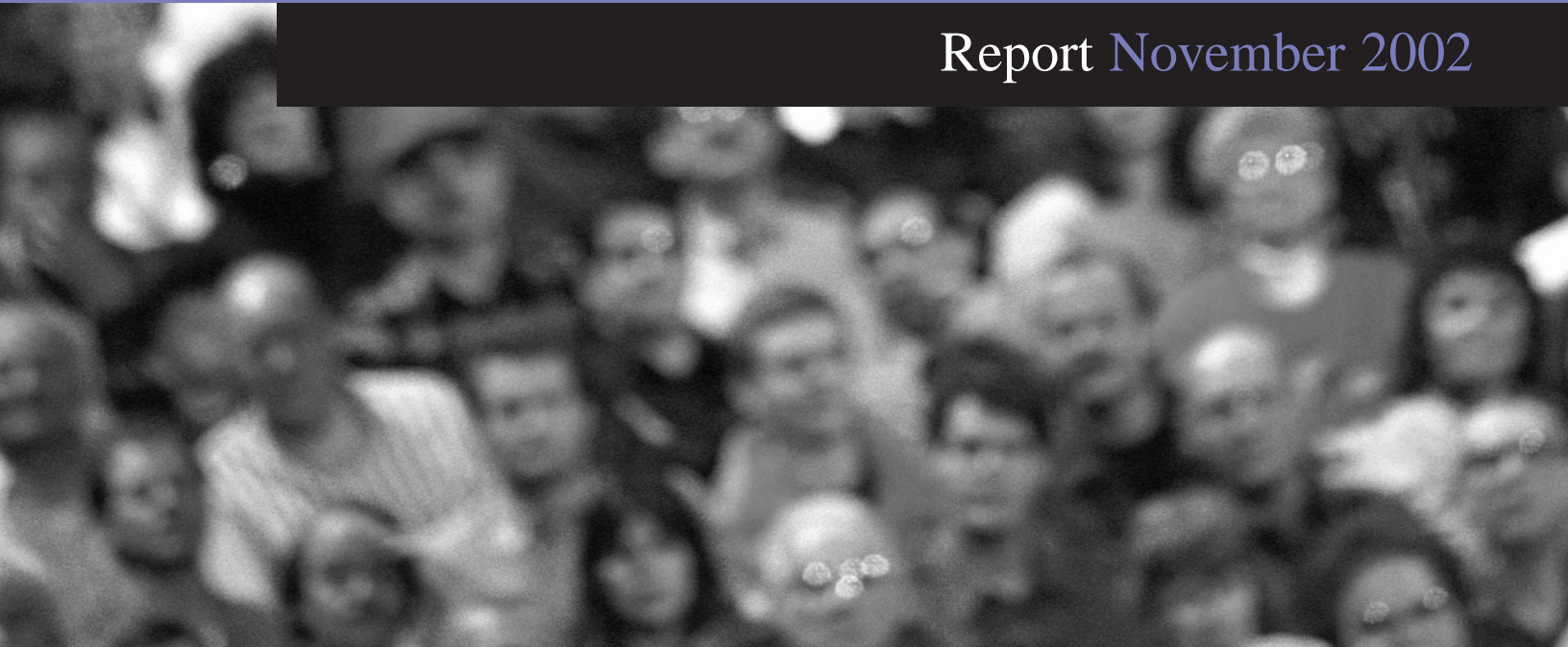


The Conference Board of Canada  
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**TD** Bank Financial Group

Report November 2002



Addressing the Challenge  
Deliberations at the  
TD Forum on Canada's  
Standard of Living



Addressing the Challenge: Deliberations at the TD Forum on Canada's Standard of Living

## About The Conference Board of Canada

The Conference Board of Canada is the foremost independent, not-for-profit applied research organization in Canada. We help build leadership capacity for a better Canada by creating and sharing insights on economic trends, public policy issues, and organizational performance. We forge relationships and deliver knowledge through our learning events, networks, research products, and customized information services. Our members include a broad range of Canadian organizations from the public and private sectors. The Conference Board of Canada was formed in 1954, and is affiliated with The Conference Board, Inc. that serves some 3,000 companies in 67 nations.

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## Preface

The Conference Board of Canada would like to thank Charlie Baillie and the TD Bank Financial Group for their leadership and vision in creating the TD Forum on Canada's Standard of Living. The goal of the TD Forum was to develop an action plan to enable Canada to surpass the U.S. standard of living within 15 years. We are grateful to the many Canadian leaders who made enormous contributions through the writing of background papers and participation in the discussions.

Canada's standard of living is important to every Canadian because the preservation of our high quality of life depends on it. At the Conference Board, we have been doing work on the standard of living issue for several years. *Performance and Potential*, our annual report card on Canada, has benchmarked Canada's economic and social performance for the past seven years. It has been reporting a gentle decline in Canada's standard of living vis-à-vis the United States, a decline that can be reversed only if Canadians acknowledge the challenge and make the decisions necessary to strengthen our performance. The Conference Board intends to continue to make contributions to this important public debate.

Anne Golden  
President and Chief Executive Officer  
The Conference Board of Canada



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Message from A. Charles Baillie

The quality of life in Canada is one of the best in the world, but our ability to preserve it for future generations will only be as great as our ability to pay for it. For the last two years, I have challenged Canadians to achieve a standard of living that is higher than that of the United States. This is not as an end in itself, but as a means of enabling us to make choices about how we shall preserve the elements of Canadian life that we cherish, and that make us distinct.

The TD Forum on Canada's Standard of Living brought together leaders from business, academia, labour, and the not-for-profit sector to discuss concrete actions that Canada can take to meet our standard of living challenge. We were very pleased to have The Conference Board of Canada as a partner, and honoured to have the event moderated by former Premier of Ontario Bob Rae.

This report is a summary of the discussion that took place at the TD Forum in Ottawa October 7–8, 2002. The key finding is that there is no single solution. We will have to do a multitude of things very much better than we have ever done them before.

I would like to thank the many leaders who contributed to the forum, by submitting a paper, or by participating in the discussion. We have a long way to go to achieve our goal, but it is reassuring that there is so much interest in the future prosperity of our country.

We hope that the recommendations in this document will contribute in a positive way to the debate on how to create a strong future for Canada. TD Bank Financial Group looks forward to continuing to contribute to this debate.



A. Charles Baillie  
Chairman TD Bank Financial Group  
October 23, 2002

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## INTRODUCTION

# Addressing the Challenge

# Deliberations at the TD Forum on Canada's Standard of Living

**T**he TD Forum on Canada's Standard of Living met in Ottawa October 7–8, 2002. The meeting was sponsored by the TD Bank Financial Group, in conjunction with The Conference Board of Canada.

In speeches before a number of audiences over the previous two years, Charlie Baillie, Chairman and Chief Executive Officer (CEO) of the TD Bank Financial Group, expressed his concern that Canada's standard of living has been slipping further behind that of the United States over the past two decades. He worried publicly that this slippage was putting at risk the programs and successes, such as health care and functioning cities, that have made Canada a special place to live and have given it a high quality of life.

Subsequently, Charlie Baillie presented a challenge to Canadians: find a way of raising Canada's standard of living more quickly, so that it will surpass that of the United States within 15 years. In March of 2002, he announced the TD Forum and asked interested Canadians to prepare papers on how the standard of living challenge could be achieved, and invited them to meet to develop a plan to address the challenge. There was an enthusiastic response. In all, 50 papers were submitted by a wide spectrum of Canadians on the theme of meeting the standard of living challenge.<sup>1</sup> Opinion leaders from business, academia, government, labour, and the not-for-profit sector (many of whom had submitted papers) then met to discuss what it would take to translate the standard of living challenge into reality.<sup>2</sup>

In his opening remarks to the meeting, Charlie Baillie acknowledged that he had presented Canadians with an ambitious challenge. However, he reiterated his firm belief that Canada has the capacity to meet the target, and that success will ensure that Canada will have one of the highest standards of living on the planet. He also restated his belief that, only by raising the Canadian standard of living could Canadians exercise their choices of how to enhance their quality of life.

*A Personal Vision:* The discussions at the TD Forum meeting were moderated by the Honourable Bob Rae, former Premier of Ontario and Partner at Goodmans LLP. He asked participants to think 15 years into the future, about a Canada that had succeeded in having the highest standard of living in the world, to think about what this Canada would look like, and what changes had been made to get there.

Bob Rae outlined his personal vision for such a revitalized Canada, focusing on Charlie Baillie's linkage of Canada's standard of living with improving the quality of life of Canadians. Participants at the TD Forum then discussed their own visions for Canada's future, the challenges that stand in the way of attaining this future, and the changes Canadians will have to make if the standard of living challenge is to be met.

### **Bob Rae's Personal Vision for Canada**

- Canada has a consensus that prosperity is a common goal, and that high-quality education, beginning at age three and continuing for life, is a key to achieving that prosperity.
- A permanent national council (drawn from leaders in business, academia, and the non-profit communities) gives advice to the Prime Minister on prosperity and social justice issues.
- Cities are recognized as powerful engines of growth. They have a better balance of revenues, independence, and responsibilities. This allows them to invest in public infrastructure and to provide their citizens with effective transportation networks, vibrant neighbourhoods, and ample leisure and recreational opportunities.
- An elected Senate (with equal regional representation) has defused regional tensions and ended the east–west barriers that limit Canadian prosperity.
- Canadians have made a concerted effort to address the problems facing Aboriginal peoples, especially in the context of their increasingly urban demographic.
- The tax system has been overhauled to be fairer and more efficient, and does not penalize growth. There is a greater emphasis on consumption taxes and less on income, savings, and capital taxes. The restructuring of the tax system has been achieved without a net increase in taxes.
- Canadians value the capacity to speak three or four languages.
- The culture of globalization has taken hold.
- Trade agreements among countries in the Americas, and among NAFTA, the European Union, and APEC allow Canadians to work around the world, without bureaucratic harassment.
- There is a free trade agreement between NAFTA and the European Union.
- Canadians are providing leadership in peacekeeping and in international organizations.

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1 These papers, a summary of the concrete recommendations, a main issues paper, and a synthesis paper are available on the TD Economics Web site, or directly from TD Bank Financial Group or The Conference Board of Canada. The list of papers is in Appendix 1.

2 The lists of participants and observers at the TD Forum can be found in Appendices 2 and 3.

# Addressing the Standard of Living Challenge

In the discussion that followed, participants agreed that Canada had many achievements of which it can be proud, including a high quality of life, greater equality of opportunity than in the United States, and a greater degree of tolerance and acceptance of diversity in race, religion, culture, and language. This diversity is one of Canada's main strengths, one it needs to see as a significant advantage. It was pointed out that Canadians frequently do not give themselves enough credit for their achievements, with the result that they fail to convince themselves, and foreigners, of the country's merits.

However, worries also surfaced: many felt that Canada is drifting rudderless, as the world about it changes; that Canada has difficulty forgetting the divisions of the past and building towards a common future; and (frequently repeated) that Canadians are instinctively resistant to change. It was pointed out that the policy challenges Canada faces have fundamentally changed over the past quarter century, but the policy instruments available to tackle these challenges have not. Meeting the challenges of the future will mean either forging new instruments, or rethinking how the current instruments are used.

It was also pointed out that the participants at the Forum were, for the most part, representatives of the generation currently in positions of power. As such, both their characterization of the problems and their recipes for solving them inevitably carries the baggage of past successes and failures. The younger generation may not identify the problems the same way, nor would they necessarily favour the same solutions. In particular, many felt that the younger generation is already more outward looking and more global in their views than the generation currently in power. The generation now entering the workforce is also seen as being far more entrepreneurial than its predecessors, and more prepared to take career risks. With a different set of attitudes and priorities, this generation is increasingly seeing a "disconnect" between what is important to them, and

Canada's overall policy framework. As a result, they are not becoming involved with the traditional political process.

Discussions at the TD Forum were divided between plenary sessions and smaller breakout groups, where participants could discuss their ideas in a more intimate environment. Discussions in the breakout groups identified five main thematic areas on which Canada would have to concentrate if it is to meet the standard of living challenge.

## Main Themes at the TD Forum

Discussions at the TD Forum focused on five main themes:

- a) Leadership and attitudes
- b) Human capital
- c) Smart social policy
- d) Strengthening the national socio-economic framework
- e) Redefining Canada's external relationships, especially with the United States

These were not seen as a prioritized list; rather, they are inter-related areas where success would lead to a more prosperous Canada.

*a) Leadership and Attitudes:* Many participants at the TD Forum felt that Canada currently has no unifying consensus on where it wants to go. No national leader in recent memory has been able to unite Canadians behind a clear and enabling vision of what our common future should look like. Several said that this was the reason why the standard of living challenge is so well timed; it touches a deeply felt need by many Canadians for an objective to aim towards.

A major part of being a leader is uniting disparate groups behind a common vision. If the standard of living challenge is to be realized, the common vision must include willingness, even eagerness, to make changes in the way things have been done in the past. The key is to make it clear that these changes lead to a more prosperous future, and to make sure that there is assistance for those at risk of being left behind.

### Changing the Leadership Style

In the past, leaders have, too often, focused on preserving the status quo, rather than encouraging change. Participants at the TD Forum noted that, in order to meet the standard of living challenge, the style of leadership in Canada must change in fundamental ways:

- Leaders have tended to come from a narrow group; leadership in the future must better reflect Canada's diversity.
- The views of too many people have been left out; leadership will have to become more inclusive of a range of views.
- Discussion of policy options has not been transparent; too much has taken place behind closed doors, without broad-based participation. Leadership must become more transparent.
- Mechanisms such as the Internet make information widely available; leadership must be based on ideas, not control of information or government processes.

Leadership also means convincing people to make hard choices. A strong argument was made that Canadian policy, in the past, has not focused on building success, but rather, on mitigating failure. Regional policy, for example, has not sought to increase the competitiveness of the most dynamic sectors or regions in the Canadian economy, but has sought to slow the decline of regions and sectors that are no longer competitive. It has been a force working against adjustment to the changing economic environment, not a force for adjustment. If Canada is to achieve a significantly higher rate of growth in the future, it must be prepared to make some hard decisions, supporting its most competitive and promising sectors, and allowing others to disappear.

Participants at the TD Forum realized that meeting the standard of living challenge will mean that they, and their colleagues in business, academia, government, labour, and the not-for-profit sector, have to become its champions, encouraging others by their example. A significant part of meeting the standard of living challenge will be providing greater recognition for those who are on the leading edge of innovation and entrepreneurship. It is an inherent part of human nature to prefer the well-known present to the uncertain future; encouraging people to abandon this ingrained attitude will, in many ways, be the most difficult leadership challenge.

*b) Human Capital:* To a knowledge-based economy, human capital is as basic as raw materials were to the industrial economy of the last century. One of the recurring themes in the papers that prepared the ground for the TD Forum was the need to maximize

the effectiveness of the educational system in order to give Canadians the tools to adapt to the new global reality. This theme carried over into the discussion at the TD Forum.

If Canada is to thrive, it must allow its people to put their education to work where they will do the most good. Mobility of skilled people implies national standards, which are recognized without question across the country. National standards, however, only define minimums. Canada must also create internationally recognized centres of excellence.

Participants at the TD Forum saw a need for both cooperation and competition in creating a world-class educational system, one that will allow Canadians to compete successfully with the world's best. No one educational institution can be the best in all fields, but, by cooperating in developing the unique capabilities of each institution, and by competing to be the best in their fields, the educational system as a whole would give students the freedom to pursue the opportunities that best suit their personal objectives, and, ultimately, best serve Canada.

The targeting of Canada's human capital development resources sparked an interesting debate. Several participants pointed out that while there is frequently a shortage of highly qualified people in Canada, most of the federal government's human resources development program expenditure is targeted at the least skilled members of society. This group of participants argued that more federal resources should be allocated towards developing the talent to fill these existing shortages.

On the other hand, a number of participants noted that the United States has effectively written off its underclass, which is up to a quarter of its population. These participants argued that by developing the human capital of disadvantaged Canadians—especially the chronically underemployed, those with low-paying seasonal jobs, and Aboriginals—they can be brought more fully into the economic mainstream. Canada would be tapping into an economic asset that the United States has abandoned, thereby generating a competitive advantage. Such an inclusive approach was also felt to be more consistent with Canadian values.

### Developing Human Capital

- Create national standards to ensure mobility of skilled individuals.
- Develop centres of excellence in Canadian post-secondary institutions.
- Target a portion of human resource development expenditure to ensuring a sufficient supply of highly qualified workers.
- Create a culture of lifelong learning. Explore ways of encouraging sabbaticals.
- Address the student debt load problem.
- Strengthen the linkages between academia and business.
- Bring disadvantaged Canadians into the economic mainstream.
- Look at ways of turning perceived problems into opportunities; for example, by developing and marketing expertise in managing health care systems.
- Encourage immigration of people who have the skills and training Canada needs.

As an example of a perceived problem that hides a human capital opportunity, several participants pointed to the health sector. The health sector, they argued, is far more than a social program; it is a sector that makes demands on managerial expertise and sophisticated technology, while having spinoffs in the life and biological sciences. Developing an expertise in these areas can not only serve Canadians better, but also provide opportunities to increase our high technology capacity and exports. Opportunities also exist for developing saleable expertise in managing the demand for health services. For example, over 60 per cent of industrial accidents are preventable. Expertise in preventing such accidents not only reduces the strain on Canadian health services, it has application in many other countries.

The need to have a culture that supports lifelong learning was widely accepted among participants. Several recommendations were made to help Canadians maintain and augment their educational qualifications throughout their careers. More extensive acceptance of the sabbatical concept in business and elsewhere was seen as part of the solution. It would be accepted, indeed expected, that workers take some time off during their careers to refresh their existing skills and/or to acquire new ones. Given that the current demographic outlook predicts a skilled labour shortage developing over the next decade, and a considerably lower unemployment rate than has been seen in the past, it was suggested that the employment insurance system could be used, in part, to support such sabbaticals.

A number of the participants at the TD Forum noted that the partnership between the academic and business worlds is poorly developed in Canada. Post-secondary institutions have tended to look to governments as their main source of funding; business as a whole has not seen it as part of their responsibility to ensure that they have the quality of graduates necessary to meet the demands of a knowledge-based economy. However, increasing human capital means more than increasing the number of graduates; there must also be high quality research and development, commercialization of the results of the research, and innovative management that can provide challenges for such graduates. As a result, the linkage between academia and business is one that needs to be addressed and strengthened.

Several participants worried that the current system for funding post-secondary education—leaving many new graduates with crippling debt loads—discourages high levels of educational attainment. For younger students, mounting debt loads can force them to drop out before attaining their goals. Later in life, once the debt is paid down, other deferred demands on their incomes makes further education unattractive.

The idea was raised of creating an “education voucher” that could be used to pay part of the cost of education. Some saw the voucher as providing partial funding for education while people are relatively young; others saw it as an incentive to return to the educational system later in a career. Whatever the solution, there was widespread agreement that the current post-secondary education funding problem is a roadblock to developing a culture that places high emphasis on educational attainment and lifelong learning for all Canadians.

The expected shortage of highly qualified people in the decade ahead reinforced the general agreement among participants that Canada should continue to encourage immigrants with the needed qualifications and skills. However, it was also noted that this implies that Canada needs to do a better job of targeting the required skill sets among immigrants, and of recognizing their qualifications once they are in Canada. Several participants noted that Canada currently spends considerable funds on its immigrant program, but much of it is not directed to where the need is greatest.

c) *Smart Social Policy*: A common theme throughout much of the discussion was that the old paradigm of dividing economic activities into those that produce income and those that spend income is obsolete. Although there were some dissenters, most participants recognized that a smart social policy will be part of the process of creating a more productive and prosperous Canada. Many participants argued that Canadians accept the value of work, indeed, that they feel they have a responsibility to work, as long as they receive a living wage for their efforts. The objective of a smart social policy, therefore, is a working society with a living wage.

Notwithstanding a consensus that social policy is important, there was also widespread agreement that the current system does not serve the interests of either Canada or the recipients of social assistance. The participants at the TD Forum found two major flaws in the current system: it is fragmented among levels of government that frequently do not cooperate or even communicate, and it fails to provide the incentive structure that helps people re-enter the economic mainstream. Several of the papers prepared for the TD Forum gave a detailed analysis of the failings of the current system and provided some thoughts on how it could be corrected.

Feeling that tinkering at the edges would not correct the problems, some of the discussion revolved around making dramatic changes to the current social policy system. While no final conclusions were reached, there was a good deal of interest in a proposal to scrap the present system and replace it with a wage-based system, integrating areas that are now split among federal, provincial, and municipal jurisdictions. Under this proposal, the employment insurance system would be returned to its origins as an insurance program, removing the regional transfer and welfare aspects. Welfare would be replaced by a training wage, which would be available to those taking training or retraining. This program would be supplemented by an enriched child support program to ensure that providing care for children does not preclude retraining. A special effort would be made to provide disabled persons with the assistance necessary to allow them to hold productive employment. Social assistance would then be restricted to a relatively small group who, for one reason or another, are unemployable, even with assistance and training.

#### Creating a Smart Social Policy

- The objective of a smart social policy is to have a working society with a living wage.
- The current social policy system is divided among jurisdictions and does not create the set of incentives needed to return people to the economic mainstream.
- Rather than make incremental changes to the present system, there is need for a fundamental review of how the various social policy programs interact.
- One possibility for reform is to move from the current system to an integrated, wage-based training program.
- An enriched child support system and assistance for disabled persons would be key components of a wage-based social policy.

While a venue such as the TD Forum is not the place to estimate the cost of such a program, many felt that the proposed program would not make more fiscal demands than the current system, especially when its long-term benefits are taken into account. The advantage of the proposed system is that it provides incentives that encourage productive participation in society rather than subsidizing non-participation. A system that returns people to productive participation in their society will not only reduce social assistance costs, it will also increase national prosperity and reduce social tensions.

d) *Strengthen the National Economic and Social Framework*: Several participants noted that Canada lags far behind countries like the United States (or even a collection of countries, such as the European Union) in removing internal barriers to trade and capital/labour mobility. Lack of a true internal common market is a drag on prosperity and is part of the reason for Canada's lagging economic performance. The difficulties Canadians, and foreigners, face in doing business in Canada include inter-provincial trade barriers, multi-jurisdictional regulations (for example, in securities markets), lack of standardization for professional certification, and non-standardized labour regulations. Efforts to maximize local interests result in a fragmented marketplace and the loss of economies of scale in production. A participant from the business sector noted that dealing with more than 10 systems of labour regulation was, by itself, a significant added cost to doing business in Canada.

Cleaning up the jurisdictional overlaps and inconsistencies that have developed over the decades is clearly a major undertaking. It was pointed out that about 10 years have passed since the federal and provincial governments agreed to take steps to strengthen the national economic union by removing some of the internal trade barriers. In spite of the agreement, many problems remain. A first step would be to revisit what had been agreed to a decade ago and to evaluate the degree to which the undertakings have been honoured, and by whom.

Rather than harmonizing rules and regulations across all provinces and territories (a truly Herculean undertaking), some participants felt that it would be more efficient for Canada to have the equivalent of the European Union's single market legislation. This legislation compels supervisors and regulators in member countries to accept the decisions made by their counterparts in other member countries. Thus, most businesses in the European Union need only go through the regulatory, or certification, process once, and can then do business in other European jurisdictions. While this raises the risk of regulatory arbitrage (businesses seeking certification in the least effectively regulated jurisdiction), it also puts pressures on the regulators, as a group, to maximize the consistency of their approaches or to delegate them to a single entity.

Taxes are a fact of economic life. However, while taxes are necessary if government is to provide services, the way taxes are imposed frequently works against the objective of encouraging growth and prosperity. Many participants felt that the current heavy reliance on income taxes and capital taxes is counterproductive, since they disproportionately tax those whose work contributes most to the general prosperity, and those who invest in the Canadian economy. There was also considerable agreement that the current system of research and development tax credits is not effective, as shown by the fact that Canada has one of the lower shares of gross domestic product (GDP) going to research among the Organisation for Economic Co-operation and Development (OECD) countries. A stronger tilt towards encouraging the commercialization of research was suggested.

#### **Strengthening the National Socio-economic Framework**

- Remove internal barriers to trade, and to labour and capital mobility.
- Revisit past agreements on removing internal barriers to see what has been implemented and what has not.
- Explore a form of single market legislation.
- Develop an integrated national tax system, one that encourages growth and innovation.
- Reduce the reliance of the tax system on income and capital taxes. Increase the role of consumption taxes.
- Include environmental issues in the national framework.

Looking at the overall structure of the tax system, many felt that the distortions resulting from consumption taxes are less damaging to Canada's capacity to increase its standard of living than the current heavy reliance on income and capital taxes. Under a consumption tax regime, spending—not earnings—would be the primary focus of tax collection. Income taxes would remain (at a lower level) to ensure that the overall tax system remains progressive; and to ensure that the more affluent bear a somewhat higher share of the tax burden than the poor.

As with the need to integrate the programs of various jurisdictions in developing an effective social policy, an effective tax policy also requires looking outside the rigid federal, provincial, and municipal boxes. Currently, different types of taxes are collected by different levels of government, so that the use of a particular type of tax depends on the revenue requirements of each jurisdiction, rather than on an analysis of the long-term impact on growth, prosperity, or equity. As a result, taxes that are detrimental to growth, such as capital taxes, continue to be used simply because they are within a jurisdiction's constitutional or legislative mandate and there are no good alternatives available that will yield sufficient revenues. One message that came out, loud and clear, from the participants at the TD Forum was that governments should put aside their jurisdictional disputes and develop a national tax system that is consistent, fair, and encourages innovation, growth, and entrepreneurship.

Discussion of the role of taxes in strengthening the national economic and social union tied in closely to concern about the future of Canada's cities. A number of the papers prepared for the TD Forum argued strongly that cities are the engines of growth that will

provide Canada with the prosperity to meet the standard of living challenge. At the same time, the papers argued that Canada's cities do not have the dynamic revenue sources or the political autonomy that will allow them to overcome the challenges they face. This line of argument was strongly supported by participants at the meeting.

Several participants noted that a constitutional rethinking of the role of cities was not a feasible option in the current environment. Most supported a more incremental set of changes that would clarify and strengthen the governance structures of cities, and that would give them guaranteed access to more dynamic sources of revenue. Several participants noted, however, that this would have to be done in a way that was, and was seen to be, irreversible. The experience of the past decade had led them to be cautious of the sustainability of urban programs and initiatives, where downloading of responsibilities and funding cuts by other levels of government are possible.

#### **Making Cities Engines of Growth**

- In the evolving global economy, national economic success depends on having cities that are engines of growth, that provide a welcoming business, cultural, and recreational environment, while minimizing social tensions through fair and effective social development policies.
- Cities need the autonomy to develop policies to meet their individual challenges. One-size-fits-all national or provincial programs do not address the diversity of cities.
- Cities must have revenue sources sufficient to meet their responsibilities. These revenue sources need to be dynamic; they must grow with the economy.
- Cities must have the fiscal stability necessary for long-term planning. They must not be subject to the arbitrary downloading of responsibilities, nor to funding cuts initiated by other levels of government.

A strong appeal was made by a number of participants that the concept of a national economic and social union be expanded to include an environmental component. It was noted that environmental problems are rarely neatly contained within one jurisdiction, and must be addressed in a wider context. Frequently, no one jurisdiction accepts the responsibility for addressing the problem, so that environmental degradation goes past the "tipping point" (the point of no return), while discussion and buck-passing continue.

It was also noted that the common measures of economic success, such as gross domestic product, are deficient, in that they do not capture the environmental externalities of many economic activities. Looking at the environmental challenges from a national as well as an international perspective would help define these externalities and raise the consciousness of Canadians about the true environmental costs of their activities. It would also provide them with some instruments to improve Canada's overall environmental performance.

#### *e) Redefining Canada's External Relationships:*

Several participants felt strongly that this was the most important topic at the TD Forum, and should be given priority. These people saw managing Canada's external trade and investment relationship, primarily with the United States, as critical to maintaining the current level of prosperity, let alone meeting the standard of living challenge. Although most participants felt other topics also deserved full consideration, even those with more domestically oriented priorities did not deny the importance of managing the country's external relationships if Canada is to prosper.

Several participants noted that, given the importance of Canada's external relationships, there should be a national dialogue on what Canada's foreign policies should look like. This is particularly true if the focus is primarily on the relationship with the United States. The American role in the world has changed fundamentally over the past decade, and this has profound implications for how Canada interacts with the United States. There was concern that Canadian foreign policy instruments, practices, and objectives have not kept pace with the changes in the world around us.

Internationally, Canadians are generally proud of their record of peacekeeping and their leadership in areas such as the landmines treaty and the International Criminal Court. It was also pointed out that such initiatives create a distinct national identity that produces real benefits; it tends to attract investment and the best type of highly qualified immigrant. However, it was also noted that such initiatives are not closely focused on Canada's self-interest. The success of many of the fastest growing countries has been the result of them finding ways of tilting the global playing field in their favour. Canada must also seek ways of ensuring that Canadians can play with the greatest possible advantages internationally.

### **Redefining External Relationships**

- Initiate a dialogue on Canadian foreign policy.
- Keep a focus on the fact that the relationship with the United States is the most important for Canada, and develop a strategy to manage that relationship.
- Strengthen Canada's representation in Washington.
- Make use of the Canadian diaspora living in the United States.
- Maintain Canada's international profile, but keep in mind the need for an international environment that supports Canadian business.
- Reinforce to the Canadian public the importance of multilateral trade agreements for a small, open economy.

Given the importance of trade and investment to Canada, and the advantages to a relatively small country of a multilateral approach, several participants wondered why the Canadian business community has been so slow to support global trade liberalization. Once the Free Trade Agreement was in place, the Canadian business community appeared to lose interest in trade issues. For most participants, the answer was that managing Canada's external relationship ultimately boils down to managing the relationship with the United States. This clearly puts a premium on managing this bilateral relationship. However, some noted that managing multilateral relationships is also important, and did not accept the simple dichotomy between a focus on the relationship with the United States and a broader, global role.

There could, however, be no disagreement on the importance of the North American relationship. Some argued that the standard of living challenge, itself, was couched in terms of Canada's performance, relative to that of the United States, because this reflects the importance of the relationship to Canadians. Others saw the large cross-border trade and investment flows as sufficient evidence that Canada's relationship with the United States dwarfed all other economic considerations. Still others noted that, if Canada's standard of living is to surpass that of the United States in 15 years, we must not only match American best practices, we must do better. All these arguments come to the same conclusion: Canada's future success depends critically on how we manage our external relationship with the United States.

Managing the relationship with the United States, in effect, means ensuring access to the American market, for both trade and capital. There was a strong contingent of participants who felt that the way ahead for Canada, in assuring access to the American market, is to take a strategic approach to the relationship, brokering American concerns on security issues against Canadian concerns on economic and trade issues. This implies making the trade relationship part of a pattern of much closer North American ties. These participants argued for a common external security perimeter, a common trade remedy regime, common immigration and refugee policies, and close cooperation on homeland security. There was discussion, but no agreement, on the costs and benefits of creating a common North American currency or, more realistically, of adopting the U.S. dollar in Canada. Whatever the final package of harmonized policies, several participants pointed out that the resulting close ties would require new institutions to manage the broad range of common concerns.

Some participants noted that the need for such new institutions highlighted the difficulty with this approach. While new institutions that discuss mutual Canadian–American concerns are feasible, new institutions that have decision-making powers are not. The United States has consistently resisted surrendering sovereignty to international institutions. Canada would have little choice but to accept American policy positions in these areas (with possibly some modifications around the edges).

Whatever the overall relationship with the United States, most participants felt that there was room to better manage the relationship in order to maximize Canadian interests. It was suggested that Canada should bolster its representation in Washington, recognizing that this is overwhelmingly the most important Canadian foreign diplomatic and trade post. It was also suggested that Canada make more active use of the Canadian diaspora in the United States. Drawing on the insights of Canadians who have achieved success in various areas of American life would significantly strengthen Canada's capacity to manage its north–south relationship. Understanding why they had left Canada, and what it would take to bring them back, would inform the domestic debate in many areas. As one participant pointed out, it never hurts to follow one's alumni.

*f) Other Voices:* Although not part of the broad consensus, a number of other ideas and observations arose in the discussions which generated lively debate. One was the suggestion that there is a need to develop a “scorecard” that would allow Canadians to monitor their progress towards accelerating the growth of their standard of living. In particular, a scorecard focusing on the necessary elements for progress in innovation, entrepreneurship, and on Canada’s overall socio-economic performance, was favoured. Although there were a number of participants who argued eloquently for such a system of benchmarking, the sense of the meeting was that such scorecards already exist,<sup>1</sup> and that creating another version would not justify the effort it would require. However, it was agreed that there is a need to monitor the progress being made towards meeting the standard of living challenge, and to report to Canadians on what still needs to be done.

Several participants also made the point that achieving the goal of surpassing the United States’ standard of living requires a significant improvement in Canadian productivity performance. While this was a subject that underlay several of the more general themes, the participants stressed that improving productivity performance is a frequently misunderstood process. Improving productivity means using the most efficient technology and the best management practices in a regulatory and policy framework that allows and encourages workers to fully utilize their abilities. It means working smarter, not harder. One participant pointed out that several European countries have higher productivity scores than Canada, but have lower GDP per capita. These countries choose to benefit from their higher productivity, in part, by enjoying more leisure time.

Higher productivity also means investing in the nation’s capital stock. While investing in human capital was widely discussed and was one of the main themes of the meeting, several participants pointed out that investing in physical capital is also important, and that Canada is lagging behind other countries. A rebalancing and reorienting of the tax system, so that it does not work against such investment, was seen as important.

Although this meeting of the TD Forum focused on actions that could be taken by Canadians generally, and tried to avoid being a discussion of specific government policies, several participants worried about how

the TD Forum process would eventually connect to the government policy process. Areas such as tax policy, regulatory policies, and regional development policies are ultimately policies that governments must adopt, change, or implement. In wrapping up this discussion, moderator Bob Rae agreed that the government policy framework is an important consideration, but that ideas flow in both directions, and that many people want government to start listening. People are looking for governments to become engaged with the diversity of Canadian opinion and, once they do, there is an opportunity for a very productive dialogue.

A strong argument was also made by several participants for taking a critical look at current government policies and regulations to determine whether they are still needed and whether they still perform the function for which they were intended. It was pointed out that Canada does not usually pass legislation with a sunset clause, so there is an “encrustation of Spanish moss” from past policy initiatives. Although they may have outlived their usefulness, such holdovers from past initiatives have created a bureaucracy, and a constituency, that works to perpetuate them. This frequently means enforcement of rules and regulations that impose unnecessary costs on business and that are a hindrance to innovation and change, while providing little or no benefit. As one participant put it, “In this country, we are always dealing with strategy, but no one is doing the housework.”<sup>2</sup>

## CANADA’S GROWTH SCORECARD

The speaker at the TD Forum lunch was Donald Johnston, a former Canadian federal cabinet minister and currently Secretary General of the OECD. He outlined the results of recent work that the OECD has done on a scorecard of Canada’s growth performance.

The OECD confirmed the data presented in the papers prepared for the TD Forum, that Canada’s GDP per capita has slipped, relative to that of the United States, since roughly 1980. This is a period when countries like the Netherlands and Ireland have been closing the income gap quite quickly (in fact, the Irish GDP per capita recently passed Canada’s). However, as Don Johnston pointed out, GDP per capita does not tell the whole story. Canada’s income inequality is less than

that of the United States, as is its child poverty and homicide rate. Life expectancy is considerably higher in Canada than in the United States.

If one looks at the drivers of the growth in standard of living, Canada gets a mixed review. According to the OECD, Canada's macroeconomic policies, its openness to trade, the entrepreneurial climate, and its human capital investment get high marks. The investment in productive assets and the flexibility of Canadian labour markets get a middle-of-the-road rating, while the country's capacity to create and adopt innovative products gets a poor mark.

Overall, Don Johnston rated Canada as well placed to gain on the leader, the United States. The strengths showed that Canada has tackled its serious structural fiscal deficit, has developed strong trade ties, and has a business sector that can take advantage of new opportunities. The weaknesses are ones most Canadians are aware of (a lack of innovation), and which the participants at the TD Forum had identified in their papers and discussions.

## FINAL THOUGHTS

The TD Forum provided a venue for individuals from a wide range of professions, individuals who are very committed to Canada's future success, to exchange ideas and to reinforce their conviction that Canada is capable of a future even brighter than its past. In her closing remarks, Anne Golden, President and Chief Executive Officer of The Conference Board of Canada, noted that, "Change occurs through the shaping and reshaping of the climate of opinion, which happens largely through meaningful conversation. This event proved the value of such meaningful conversations."

Broadly, the discussions in the TD Forum fell into two categories: what are the interim objectives Canadians should strive for; and what are the means of getting Canadians to buy into striving for these objectives. The discussion of the interim objectives (there was almost no disagreement with the ultimate objective of a more prosperous Canada) were chiefly discussions of priorities and balance. The five broad themes outlined above received broad-based support; it is a question now of how to tackle them and how to balance the competing interests as the policies unfold.

Much work remains to be done on expanding and analyzing some of the ideas presented at the TD Forum, but the main thrust of putting in place the changes and policies that will move us towards the open and competitive Canada outlined in Bob Rae's initial vision is not very controversial.

The second broad category, how to get Canadians to buy into the need to make the changes, to change their attitudes and pursue the necessary policies, is both harder and less subject to analysis.

Some parameters for obtaining a broad-based consensus are clear. Whatever the policies, they should be inclusive of all of Canada's diversity. It is clearly not acceptable to Canadians that some are left behind in the move to the new economy. The old paradigm of the business sector being responsible for creating a larger pie, and government being responsible for dividing it up, is obsolete. Wealth creation and wealth distribution are both parts of the equation that guarantees prosperity. All Canada's stakeholders have a role to play in creating wealth.

Another parameter is that we must keep in mind the importance of Canada's relationship with the United States. This will be a constant and unchangeable factor in any policy package. Management of the relationship goes beyond informed self-interest. If the TD Forum participants are representative of Canadian opinion, then Canadian and American values overlap in so many places that Canadians would not accept a set of policies that puts Canada into basic conflict with the United States. This does not necessarily mean that Canadians should uncritically adopt American values and priorities; some argued that it means that there must be "a dialogue of equals." Managed properly, the bilateral relationship will allow other initiatives to go ahead. Managed poorly, it makes other initiatives ineffective. Successfully managing the American relationship is a necessary condition for all else that was discussed at the TD Forum.

Finally, Canada will continue to be subject to the stresses and strains that globalization and our own internal regional rivalries impose. Many participants pointed out that the jurisdictional silos, whether federal, provincial, or municipal, which have characterized Canada in the past, will not serve Canada well in the

future. Whatever happens, the role of Canadian cities, in particular, will be critically important if Canada is to meet the standard of living challenge. Progress has been made in generating awareness of the issues surrounding cities, but more needs to be done to move the cities agenda forward.

In the end, the discussion at the TD Forum frequently came back to leadership. Leadership is much valued, but usually valued in its absence. The leader that the participants of the TD Forum are looking for is not one charismatic national figure, but leaders from all walks of life who are prepared to step outside the box of local or special interest concerns and put the future of Canada first.

As many participants of the TD Forum pointed out, what is needed is to change attitudes and to convince Canadians that a much brighter future is possible. Once convinced that such a future is desirable and possible, Canadians can be relied on to work unceasingly towards it. The participants pointed out, however, that it is

necessary to develop this momentum for change if the standard of living challenge is to be met; it will not be enough to come back to the issue in 14 years to see what has occurred. Success will result from convincing Canadians to make the incremental changes that will see the challenge through to a successful conclusion. The TD Bank and the Conference Board fully accepted this advice, and intend to continue making their contributions to the debate.

The results of the TD Forum, its supporting papers, and the summary of the discussion, are freely available for further discussion and analysis. A report of the discussions will be provided to the federal government-sponsored Innovation Summit in mid-November. Charlie Baillie, summing up at the end of the discussion, put it best: “The breadth of the themes reflects the fact that there is no ‘magic bullet’ to ensure success. Rather, Canada must excel on many fronts at the same time. This is ambitious, but certainly not beyond our grasp as a nation.”

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1 For example, see Section 3 of this report for a summary of the OECD report card on Canada, or *Performance and Potential 2002-03*, (Ottawa: The Conference Board of Canada, 2002), Chapter 1.

2 Leonard Lee, President, Lee Valley Tools, Ottawa.

## APPENDIX 1

# Submissions to the TD Forum on Canada's Standard of Living

Alboim, Naomi, and The Maytree Foundation (The Maytree Foundation)—*Fulfilling the Promise: Integrating Immigrant Skills into the Canadian Economy*

Barrett, Charles (The Conference Board of Canada)—*Canada's Place in the World*

Battle, Kenneth, and Sherri Torjman (Caledon Institute of Social Policy)—*The Architecture of Smart Social Policy*

Berger, David (David Berger & Associates)—*Submission to the TD Forum on Canada's Standard of Living*

Berridge, Joe (Urban Strategies Inc.)—*Cities in the New Canada*

Burleton, Derek (TD Bank Financial Group)—*The Demographic Challenge*

Burleton, Derek, and Don Drummond (TD Bank Financial Group)—*Federal Fiscal Outlook: Pursuing Activist Policy on a Tight Budget*

Burney, Derek (CAE Inc.)—*The Way Ahead for Canada: A Question of Leadership and Will*

Cork, Kendall E. (Sentinel Associates)—*Growth in Productivity in the U.S.A. and Canada Since 1962*

Courchene, Thomas J. (Queen's University)—*Knowledge and Human Capital*

Crowley, Brian Lee (Atlantic Institute for Market Studies, AIMS)—*Rags to Riches: How "the Regions" Can and Should Be Leading Canada's Productivity Push*

Daniel, Patrick D. (Enbridge Inc.)—*Improving Canada's Standard of Living*

Dobson, Wendy (Centre for International Business, University of Toronto)—*Shaping the Future of the North American Economic Space*

Donald, Al (Deloitte & Touche)—*Calling All Canadian Manufacturers: Innovate or Stagnate*

Dufour, Paul (International Development Research Centre, IDRC)—*Knowledge, Innovation and Development: Enhancing Canada's Standard of Living Through Emerging Global Partnerships*

Fleck, Robert I. (Teamwork Communications)—*Working with the Workforce and Looking at Success*

Fulton, Murray (Department of Agricultural Economics, University of Saskatchewan)—*Agriculture and Canada's Standard of Living*

Georgetti, Kenneth, and Andrew Jackson (Canadian Labour Congress)—*Taking Lifelong Learning Seriously*

Godfrey, John (M.P., Don Valley West)—*Standard of Living or Quality of Life: Does One Come First?*

Hogeterp, Mike (Christian Reformed Church)—*Towards Shalom: Living Standards and the Common Good*

Hosek, Chaviva (Canadian Institute for Advanced Research, CIAR)—*Leveraging Science and Technology*

Jarrett, Peter (Organisation for Economic Co-operation and Development, OECD)—*Looking Forward Hopefully: What Canada Can Learn from Some Other OECD Countries' Growth Experiences*

- Johnston, David (University of Waterloo)—  
*The Innovation Quotient: Building Advantage Through Canada's Universities*
- Lacroix, Robert (Université de Montréal)—  
*Economic Growth: Where Will It Come From?*
- Lankin, Frances (United Way of Greater Toronto)—  
*Two Solutions for Urban Poverty*
- Lazaridis, Mike (Research In Motion Limited)—  
*Science and Education Fuel Innovation*
- Loat, Alison (Canada25)—*Toward a New Magnetic North: Creating an Environment to Attract and Retain Key Talent*
- Macdonald, Mary (Macdonald & Associates Limited)—*Canadian Innovation, Productivity Growth and Living Standards: The Catalytic Role of Venture Capital*
- Martin, Roger L. (Rotman School of Management, University of Toronto)—*The Demand for Innovation in Canada*
- Maslove, Allan, Katherine Graham, and Frances Woolley (Carleton University)—*A Framework for Balanced Growth and Public Investment*
- Maxwell, Judith (Canadian Policy Research Networks Inc.)—*Smart Social Policy: Making Work Pay*
- McGillis, Bruce Alton—*Without Question the Volume and Velocity of Money Circulation Establishes Living Standards*
- McGuinty, David J. (National Round Table on the Environment and the Economy, NRTEE)—*Natural Capital: A Critical Basis for Improving Canada's Standard of Living*
- Milton, Gwen M., and J.C. Douglas Milton (Milton Scientific)—*Improving the Quality of Life in Canada*
- Miner, Rick (Seneca College of Applied Arts and Technology)—*Knowledge Matters, Eh?*
- Mintz, Jack M. (C.D. Howe Institute)—*Tax Policy as a Contribution to Canada's Economic Advantage*
- Moore, Max (Community Commonwealth)—  
*Community Commonwealth Proposals for More Prosperous Communities*
- O'Brien, Dave (Corporation of the City of Mississauga)—*Building Sustainable Communities*
- Piper, Martha, and Allan Tupper (University of British Columbia)—*Canadian Universities, Innovation and the Challenges of Economic Renewal*
- Port of Halifax—*Innovation Tips*
- Richards, Dan (Cartier Partners Financial Group)—  
*Encouraging Entrepreneurs*
- Savoline, Joyce (Regional Municipality of Halton)—  
*It's About Quality of Life*
- Shapcott, Michael (Centre for Urban and Community Studies, University of Toronto)—*Housing for All Canadians: A Nationwide Crisis Requires a National Solution*
- Sharpe, Andrew (Centre for the Study of Living Standards)—*Raising Canadian Living Standards: A Framework for Discussion*
- Slepkov, Bernie—*Harnessing Chaos and Stewarding Change: Becoming an Inclusively Transformative Society*
- TD Economics—*A Choice Between Investing in Canada's Cities or Disinvesting in Canada's Future*
- TD Economics—*The Greater Toronto Area: Canada's Primary Economic Locomotive in Need of Repairs*
- Varvares, Chris (Macroeconomic Advisers, LLC)—  
*The Economic Outlook and the U.S. Standard of Living Through 2017*
- Wells, William J.—*When the Paradox Is No Longer a Pair-of-Dimes: On Knowing the Art and Science of Design Through Self-Organizing Systems*
- Whitney, Chief Roy (Aboriginal Business Canada)—  
*A Pro-Active Approach to Improving the Standard of Living of Aboriginal People in Canada*

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