

## Foreword

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On 13 and 14 November 2008, the Bank of Canada hosted a conference to honour the distinguished career of former Governor, David Dodge. His contributions to Canadian public policy span a remarkable range of areas. In addition to his service at the Bank of Canada, he held senior positions at the Central Mortgage and Housing Corporation, the Anti-Inflation Board, and the federal departments of Employment and Immigration, Finance, and Health. Given the broad scope of Governor Dodge's interest in policy issues, it was fitting to celebrate his career by organizing the conference around a variety of issues having important implications for future public policy decisions. The authors of the conference papers are prominent experts in their fields and were drawn from his former colleagues in academia and the public sector.

The conference began with a keynote address by John Taylor that examines three questions concerning the financial crisis that began in August 2007, namely, what was the cause, what prolonged it, and why did it worsen significantly in the autumn of 2008? His analysis emphasizes the roles played by various U.S. government and Federal Reserve actions in the lead-up to the crisis, as well as shortcomings of the initial policy responses. Looking ahead, he stresses the importance of establishing a clear set of principles to guide government interventions during future crises.

Nicholas Le Pan uses his perspective as a former supervisor of Canadian financial institutions to analyze the causes of the financial crisis and provide wide-ranging recommendations for strengthening the regulatory framework. Suggested future directions include creating a national securities regulator in Canada, clarifying the mandate of central banks in macro-prudential regulation, and expanding the power for authorities to obtain information in certain areas to support better assessments of financial stability.

Guillermo Ortiz Martínez, Governor of the Banco de México, discusses the implementation of monetary policy under an inflation-targeting framework, with a particular focus on the experience of Mexico. Using lessons from the inflation-targeting literature, he notes some differences between the benefits realized by developing economies and those experienced in industrialized countries. Governor Ortiz also highlights the policy challenges that arise when temporary shocks (such as sharp increases in commodity prices) move inflation away from the target.

The paper by Robin Boadway reviews both past and future fiscal policy issues in Canada. He identifies a number of significant initiatives that were undertaken during David Dodge's tenure at the Department of Finance, including the Canada-U.S. Free Trade Agreement, the North American Free Trade Agreement, the Goods and Services Tax, stabilization of the national debt, and pension reform. He argues that future fiscal challenges will be at least as

difficult as those in previous decades, citing such examples as reforms of the equalization program and the income tax system.

The next two papers consider important determinants of the standard of living. Andrew Sharpe examines evidence on the impact of market-oriented public policies on productivity growth in Canada. He concludes that the productivity-enhancing effects from further efforts to liberalize markets may be quite small, so the key to improving Canada's future productivity performance will be for the business sector to develop human capital, adopt best-practice technologies, and invest in machinery and equipment.

Charles Beach studies the impact of the aging of Canada's workforce on the standard of living by examining the effects on labour productivity and the employment rate. He concludes that, in the long run, the aging population will lead to lower productivity growth, and the employment rate will decrease as more baby boomers retire from the labour force. Although these trends will reduce average living standards, the size of the decline should be mitigated by increased investment in human capital and other adjustments as labour shortages raise real wages.

The final two papers discuss the consequences of worker displacement—defined as permanent job losses owing to changing economic circumstances such as plant closures—and assess potential policy responses. Craig Riddell notes that earnings losses are much greater for long-tenure displaced workers than for other job losers. To recognize this difference, he proposes that Canada's Employment Insurance (EI) program be changed to provide enhanced benefits to these workers, while noting that reforms should be designed to minimize adverse effects on job search.

Michael Abbott reaches similar conclusions from his review of the empirical literature on displaced workers. He also recommends that Canada's EI system be changed to reflect more closely their substantial decrease in earnings following permanent job loss. In addition, he suggests that more evidence should be collected to evaluate the effectiveness of other potential policy instruments for helping displaced workers, such as job search assistance, on-the-job-training, and wage insurance.