

WITH THE HONOURABLE BOB RAE, PREMIER OF ONTARIO, 1990-1995



Bob Rae was Premier of Ontario from 1990 to 1995. He is currently a partner at Goodmans, a large, Toronto-based law firm. His clients include companies, trade unions, charitable and non-governmental organizations, and governments themselves. He has extensive experience in negotiation, mediation and arbitration and consults widely on issues of public policy both in Canada and worldwide. Elected eight times to federal and provincial parliaments before his political retirement in 1996, Mr. Rae holds B.A. and LLB degrees from the University of Toronto. A 1969 Rhodes Scholar, he obtained a B.Phil degree from Oxford in 1971 and was named Queen's Counsel in 1984. The recipient of honorary doctorates from four universities, he was appointed to Her Majesty's Privy Council for Canada in 1998 and an Officer of the Order of Canada in 2000. He is an Adjunct Professor at the University of Toronto and a Senior Fellow of Massey College. Bob Rae has also served, or is currently serving as a member of several governmental, non-governmental, cultural and academic groups, as well as on the boards of several major corporations. His two books, *From Protest to Power* and *The Three Questions*, have been published by Penguin Viking of Canada. He was interviewed after his lecture to the Frontier Centre on April 26<sup>th</sup>, 2005.

**Frontier Centre: What do you mean when you ask, "Is there a better way to run the country?"**

**Bob Rae:** I mean we're right now in a period of deep partisanship. There is an absence of long-term thinking. I think one of the real problems in public policy is that so much of the formulations by the politicians is short-term. I think you've got to have a much longer term where you want policy to go and that's one of the real problems. Things are too partisan at the moment and there's too much of a fixation on scandal and not enough of a focus on what's going to be good for the country in the long run. That's a real problem we face right now.

**FC: What's your impression of Tony Blair's "third way"? Is New Labour on the right track in England?**

**BR:** Blair has made a huge contribution, not just him personally, but the way in which that a clear determination was made in the 1980s that the Labour Party, if it ever hoped to get back into power, had to break the paradigm. It had to break its positioning. You know under the previous leadership of Michael Foot they were reduced to less than 30% of the vote. They were confined to a few constituencies in the north and in Scotland and in Wales and they had very little appeal beyond people looking backwards. I think John Smith first started it and, with Blair following, they realized that there had to be a real change in the approach to public policy and politics. As a result, Blair has changed British politics for the foreseeable future, not necessarily that the Labour Party will always be elected, but that the terms of the debate will be much more focused on a few key issues. Blair has done a remarkable public service in making those changes.

**FC: New Labour's election manifesto talks about patient power in healthcare and parent power in public education. Is empowerment the wave of the future?**

**BR:** I think it is. I think that the main thrust of what Blair has managed to do is to recognize that the old collectivist ideology began to lose its clear appeal, starting in the 1950s when people began to see that there were tremendous opportunities in the economic structure, that the real issue wasn't capitalism versus socialism, but what kind of capitalism you want to have. That in turn means what kind of public policies we can have. Can we have a public sector that's more responsive to the individual, that caters more to individual needs, that looks at the fact that people are different? In all the debates we're having on compulsory retirement or public housing, you name

the game, you look at all the issues. There is a lot to be said for looking at this question of how you effectively empower the

individual. But I think what differentiates that from a hard-right politics is that it is not based on an illusion as to what you have to do to create it. It still leaves a lot of room open for strong public policies that will make those kinds of choices more available for people.

**FC: Should governments run services themselves or simply fund them?**

**BR:** I don't think governments do a very good job of actually operating things. I think that governments should be regulating and mandating, and should be relatively lean in terms in how they operate. I think the actual operation, the delivery and running of programs, should be done by agencies outside a government. Governments don't run hospitals, hospitals run hospitals and then the question becomes how we mandate those hospitals. I am not a big fan of big bureaucracy running everything.

**FC: Many people, including former politicians, have observed that health care budgets are crowding out other provincial priorities. What should be done to fix the problem?**

**BR:** I think that it's probably the toughest long-term issue that we face, in terms of public policy and the general direction of government spending, because the pattern of consumption spending overtaking investment spending is a real issue for the future. I don't think there are any easy answers and I certainly don't have one. It is a problem everywhere, it is not confined to Canada. Every country is wrestling with this question of how to deliver better health care at reasonable cost and in ways that continue to be accessible to even the lowest-income people. I think that's a key criterion that we've established. I'd never want to see us lose our commitment to universal care but I think we have to have a real talk over the next decade about the balance between the spending that we do on healthcare and the spending that we have to do in other areas. This has tended to get lost in a lot of discussions. But I think over the next while it will become more focused.

**FC: The trend in Europe is to split the healthcare purchaser from the provider. Do our politicians know what that means?**

**BR:** I don't think so. The problem with the debate in Canada is that it is very much focused on the U.S. versus Canada. That leads to a very narrow gauge in that people don't recognize that across the world there is a range of ways in which we allow people to have access and choice. It is one of the questions in Canada that we are going to have to wrestle with. How do we broaden the discussions so that people understand that it is not the Canadian model versus the U.S. model. The U.S. does not have a good system and I think we all agree with that. The question then becomes how do we improve the quality of our system, improve

access, reduce waiting times and not bankrupt the treasury. That is a pretty key issue.

**FC: Your recent report on university funding in Ontario criticized tuition freezes and that type of policy. Why is a tuition freeze bad policy?**

**BR:** Well, tuition freezes are bad for a bunch of reasons. One, because they focus on the wrong question. The question isn't the level of tuition, the question is the affordability of education. The fact of the matter is that there are many people attending university who could afford to pay more and there are a lot of people in university who can't afford to pay what they are being asked to pay. All you do when you put in tuition freezes is reduce the ability of the universities and colleges to sustain themselves, to bring in innovative programs, to do exciting stuff, to improve the quality of education. You give people the illusion that you are doing it in the name of access when in fact what you are doing is simply increasing the dependence of institutions on the government. We all know that government funding is very unpredictable; it varies according to the politics of the day or the year and you end up reducing the quality of education. I think the quality of our education in Canada is at risk at the moment. I think that we're not innovating and not doing as well as we could compared to other places and that policies that focus on tuition are completely misguided. The focus has to be on access and on excellence. If you go by those two issues, gutting tuition, as has been suggested by some, is simply not the answer. I think we have to look very long and hard at how we make our institutions more competitive and more attractive, at how we are going to bring the brightest people to our institutions and keep them there. How are we going to do more research and development and how are we going to provide a quality education for our undergraduates? Look at those things with those objectives and a blanket tuition freeze or reduction in tuition just doesn't cut it as a serious public policy.

**FC: There are parallels with the housing market. Rent controls are big here in Manitoba. Do you have any thoughts on that?**

**BR:** The other problem with freezes and controls is that once you introduce them it is very hard to get rid of them. I think that is one of the dilemmas that we are facing today is that it is much harder to get out of these programs than it is to get into them. The key thing, in terms of affordability, is to make sure that supply is readily available and to make sure that there are a series of options and choices and to focus very much on making sure that the supply is affordable. Again, I am not convinced that controlling the price is the best way to do that.

**FC: A generation later, what do you think of NAFTA, the North American Free Trade Agreement? Has it been a success?**

**BR:** It's had its pluses and minuses. I think that there is no going back. The fact of the matter is that companies in many sectors have made a series of decisions based on that level of integration. It is unimaginable that you would go back. What you would go back to? But we should also recognize that we don't have as much free access to the U.S. market as we think we do. We continue to face a lot of harassment at the border, whether it is the Wheat Board or soft wood lumber or cattle or farm products of all kinds. Whatever the issue may be, we're finding constant evidence that the U.S. is very reluctant to give up its control over access to its market. The deal was sold on the premise that it would allow us to get in underneath the America umbrella and I think that has proven only partly to be the case. There are some spectacular exceptions of which perhaps soft wood lumber is the biggest in terms of its costs. It has cost the industry in Canada billions and billions of dollars and it's proven very harmful to Canada. I'm not sure NAFTA, has given us the really open relationship with the U.S. market as much as perhaps some of its ideologues would like to suggest.

**FC: Equalization is a topic in the news these days. There is some discussion that Ontario used to fund equalization because people would buy products from Ontario but this has changed because of north-south trade in North America. Do have any views on equalization?**

**BR:** I am a strong proponent of equalization. But I think it has to be very transparent and I also think we have to look long and hard at another issue which no one wants to talk about. That is the issue of oil and resource revenues and how, with the oil prices where they are, they currently are going to act as a serious distortion in terms of the relative capacity of different provinces. But I think it is a pretty good principle that we should try to equalize on a relative basis the fiscal capacity of provinces, not have provinces which have to have very high levels of tax and others which have very low levels of tax, not have hugely differentiated services between one province and another. I don't sense any reluctance on the part of Ontarians, because it is really Ontario taxpayers, not the Ontario government, who pay for some redistribution across the country. I think the difficulty that Ontario has had is when they see programs like immigration and other programs which are run in a very non-transparent and unfair way and when that happens there is an issue. That is where people have got their backs up. I think that is where Premier McGuinty has got his back up. But I don't think anybody should think that Mr. McGuinty is not an advocate of equalization. He is a very strong advocate of equalization.

**FC: You recently made some comments regarding pushing taxing power down away from the federal government down closer to the people. Why is that a good idea?**

**BR:** I am a big believer on the principle that the government which provides the service should also be responsible for raising the money. I don't like what this sort of hand-out mentality has done to either the provinces or municipalities. I think it is unhealthy for a political culture to have people running around constantly saying, "Give me more, give me more, give me more." Once you have established a transparent basis for equalization, you then have to look at this question: "How can we insure that the municipalities and the provinces have the fiscal capacity to do what they have to do. I think, generally speaking, the federal government collects too much tax and the provinces and their cities collect too little tax. The federal government much prefers to hand out its largesse because that gives them a reason to live and it makes them feel good. It means they can make all these announcements. Just to assure efficiency and accountability, if you say to a mayor, "Look, you're responsible for urban transit, you pay for it and you raise the money for it." That is much better than waiting for the provincial or the federal government to come through. Our reliance on shared-costs programming has tended to make the funding of those programs very uneven and also very non-transparent. This raises a lot of doubts in the mind of the taxpayers. Exactly who is paying for what and which level of government is responsible for what? I think there is a lot of confusion about it in terms of the way politicians talk. For example, the NDP campaigns federally on tuition freezes across the country. Well they don't even have the constitutional power to do that. We need to be clear about these things.

**FC: What taxing powers would you shift downwards?**

**BR:** I would just be much clearer about how you are directing revenue. For example, if property taxes could afford to go up in many jurisdictions and if they were made less onerous on low income people, what if the provinces and the federal government were more determined to give greater capacity to the cities to do this but gave them more of a write-off on the taxes they impose? There are a variety of ways of doing it, but I don't have a magic formula. It seems to be something we should be reflecting on. We have income taxes, GST, property taxes, various taxes on

services. So it should be possible to divvy it up more efficiently than we have been doing.

**FC: We did a calculation last year which showed that the revenues from GST were roughly equivalent to what the federal government was transferring to the provinces, for equalization and health and social transfers. What about the simple idea of giving the GST to the provinces and getting out of the transfer game?**

**BR:** I wouldn't be unhappy with that kind of approach, I think it's a good idea. We discussed it with the federal government when I was premier there was no interest at that time but I think getting back to this principle of allowing governments to have the fiscal capacity to do their bit, merging the sales taxes together makes perfect sense. I mean having the two taxes right now is pretty inefficient so I think it is time to move on.

**FC: Is Canada's New Democratic Party too wedded to philosophies of the past?**

**BR:** No and yes. No, because there is a lot of innovation in their ideas on the environment and their continuing concern with respect to poverty and housing and the need to address the needs of the people. I think those are always at the forefront and are very critical issues. I think where the party is not so much wedded to the past is in identifying the problems, but the party tends to be a little bit less inventive in identifying the solutions. Unfortunately, there is a tendency for people to say, "Well it's either just more government or more regulation, and, in the case of higher education, lower tuition." They tend to go a bit for the slogans that don't, when you actually analyze them, add a whole lot to the policy discussion. That's where I part company with folks because I think there is a need to really address the underlying issues and to be much more creative in our solutions.

**FC: If you had to offer advice to make the NDP more relevant, what would it be?**

**BR:** I think it needs to make a stronger and more categorical embrace of the simple fact that Canada is a market economy. It should certainly remain a market economy and that we want to support companies and individuals in their aspirations. I think that's something that we should be prepared to say in an unembarrassed way. The notion that the party allows itself to be perceived as simply being anti-business or anti-enterprise is really not helpful and not functional in today's world and in today's economy and in today's general thinking in society.

**FC: What, in hindsight, would you have done differently as Premier of Ontario?**

**BR:** The short answer is that it was in the first year where we really dug our grave. We underestimated the impact that the recession had on public finances in the first year and I think that

affected us going forward in an irreparable way. That would be the short answer.

**FC: What would you have done differently though?**

**BR:** We needed to start much earlier in getting spending under control and I think we needed to talk much more candidly with the public about the challenges that the province was facing as a result of the recession. I think we needed to do more to reach out to the business community than we were, than we perceived to be doing, though I would argue that we actually did a lot to reach out to the business community. But we also tried to accomplish a lot on the social side and on the regulatory side that they saw as being unfriendly and I think that put us in a defensive mode for too long.

**FC: What do you consider to be your greatest achievement while in power?**

**BR:** I think getting the province's economy back on track and moving forward with some very progressive legislation at the same time. I think that was a substantial contribution. Frankly, I think a lot of the policies that we brought forward are now being revisited after a sort of neo-conservative interim. I think a lot of our policies are being looked at again in a whole range of areas, housing, the environment, social policy. I think people are beginning to understand some of the logic of what we were trying to do.

**FC: The theory of the optimum size of government explores how big government should be as a percent of the economy to maximize living standards. Do you have any views on that?**

**BR:** No, I don't think there is a magic formula. If you look at the current situation, I think there are two major areas where we are not doing enough. One of them is housing and the other one is early childhood education. Those are two quite expensive items. So the question then becomes, "What is the most creative way to fund those programs in addition to the ones that we are already funding?" I don't think you can answer the question without answering a second question: "What do you want government to do?" It is not a matter of setting an arbitrary percentage and saying it can only be this. I do think that the upper limit is probably around the 40% range in terms of the share of taxation for all of the public sector as a share of the GDP. But we are not up near that range yet. and I don't think we need to get that high. You also have to look at what point taxation simply becomes too difficult and too onerous for people and unacceptable. I think that we have learned a lesson, particularly after the end of inflation. I think the age of inflation allowed governments to conceal a lot of tax increases. The end of inflation really meant the tax increases became much more transparent and I think one has to continue to wrestle with that issue of making sure that taxes are affordable and never become so onerous that people try to avoid them or systematically try to evade them. That is the balance we have to continue at striking.