

CFNU Report SUMMARY

Can we afford to sustain Medicare?

29 July 2004: Health care costs are growing more rapidly than government revenues, and more rapidly than economic growth in recent years. Since the mid-1990s, health care spending shows no sign of leveling-off – the longer view shows that health care is eating up a growing share of GDP.

Costs in Context

We are not the only nation facing this trend – this is a global phenomenon. With remarkably few exceptions, the trend is to spend a greater share of GDP on public health care. Canada is one of those exceptions.

- Compared to a decade ago, Canada's public spending on health care as a share of GDP has fallen from 7.4% in 1992 to 6.7% in 2002 -- a dramatic decline that has been matched only by Finland.

Even if public spending on health care continues to grow as a share of GDP, it is in no danger of crowding out other program priorities any time soon.

Public spending is growing less rapidly than private spending, pointing to important efficiencies available through the power of single payer administrations; governments' greater abilities to set prices and/or control expenditures through buying power; and lower costs of financing capital investments.

The Provinces

“Portion of budget” and “rate of growth” are separate issues. Today Ontario spends more of its budget on health care than any other jurisdiction – 43% of program spending. Among the provinces, Quebec spends the least at 31%. The rate of growth of health care spending ranges from 5% for Quebec to 33% for PEI, with Alberta close behind. The fact there are such variations among the provinces indicates that there are lessons to be learned, not just in our ability to pay, but in our ability to manage costs, and in the balance achieved between health care and everything else.

In all but four of the 13 provincial and territorial jurisdictions (P.E.I., Manitoba, B.C. and the Yukon) public health care expenditures represent the same or a lower share of provincial GDP than they did a decade or more ago.

But in virtually every jurisdiction, the share of GDP spent on all other programs has consistently dropped since 1993, in most cases quite dramatically. Two jurisdictions (Quebec and B.C.) show softer trends to 2003, though they move in the same direction.

- Growing health care costs are one reason why the health care share of budgets is rising; another reason is that governments are actually spending less on other things.

Tax Cuts

Interest compounds – so do tax cuts. Tax cuts cost an accumulated total of almost \$250 billion in foregone revenues since the late 1990s. At the same time cumulative increases in public spending on health care, about \$108 billion, have been portrayed as a fiscal threat. Tax cuts are the most costly single initiative of provincial and federal governments in recent years.

- Canadian taxpayers have never seen tax cuts of this magnitude, even in the immediate aftermath of World War II.

In 2004-5 alone, federal and provincial tax changes together cost public coffers \$63 billion.

If just a fraction of the tax cuts had been diverted to support public health care, there would be no fiscal crisis in funding health care. To resolve this problem today would only require reversing a small portion of these cuts. For example, simply reclaiming part of the federal income tax cuts (both personal and corporate) equivalent to 1 percentage point across the board would yield about \$6 billion a year – far exceeding what’s needed to close the Romanow gap. Alternatively, the federal government could choose to use just part of its annual budgetary surpluses (each has exceeded \$6 billion for the past four years) to fund health care.

At the provincial level, instead of increasing funds through the fairest form of generating revenue – income taxes – there is a shift to more regressive revenue-generating gimmicks: increased health premiums, higher deductibles, or delisting services entirely from coverage through public insurance.

These measures come with severe consequences. People on limited incomes who can’t afford to pay for drugs or eye exams often opt to not “consume” such goods or services – even if it’s for their own good health.

A Strong Federal Role: a national plan of action

More money is not the only answer. Growth in costs will decline if today’s re-infusion of cash yields a strong role for the federal government and a health care action plan that works for everyone.

- Upload the costs and coordination of public drug programs.
- Undertake more of the capital costs of maintaining and enhancing health infrastructure.
- Underwrite more of the costs of health education to help end current and future personnel shortages in health care.

It’s time governments started focusing on ways to harness the power of public finance to give us better value for our health care dollars. It’s time for a national plan of action.