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Canada's health care system and the sustainability paradox

Irfan Dhalla MD

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Physician leaders,¹ newspaper columnists,^{2,3} representatives of the business community⁴ and even some health policy analysts⁵ have all expressed concerns that publicly funded health care is unsustainable. The current federal health minister has even gone so far as to say that “both the Prime Minister and I have indicated that the status quo won’t be sustainable in terms of demands on our system.”⁶

Not everyone holds this view. For example, in his report on health care in Canada,⁷ Roy Romanow concluded that our health care system was “as sustainable as we want it to be.” Despite this countervailing argument, concerns about unsustainability have provided an impetus for proposed reform.¹

In this article, I will argue that Canada faces a sustainability paradox: despite ever-increasing expenditures, both in absolute dollars and as a percentage of the national income, increases in overall spending on health care in Canada are sustainable for the foreseeable future.

Are increases in government spending on health care sustainable?

One view maintains that our publicly funded health care system is unsustainable because health care expenditures are accounting for an ever-increasing share of government spending. In Ontario, for example, health care spending accounted for just over 30% of the provincial government’s expenditures in 1981/82, but 45% in 2004/05. Assuming that current trends will continue, the Ontario government has projected that the share will increase to 55% by 2025.⁸

One major flaw with this line of reasoning is the assumption

that the percentage of government expenses devoted to health care depends primarily on how much governments spend on health. When measured by percentage of government expenses, health spending also depends on 2 other key factors: how much governments spend on non-health-related items (e.g., education, police services, social assistance) and how much governments collect in taxes. If a government reduces its spending on non-health-related items or cuts taxes, the percentage of expenditures devoted to health care will increase automatically.

A closer look at the Ontario data described earlier reveals that other trends are hidden amid the seemingly inexorable rise in health care spending. For example, starting in 1988, the share of Ontario’s expenditures devoted to health care actually decreased for almost 10 years, from 38% to just over 35%. After 1997, the share began to grow, but the increase was due in large part to reductions in spending on non-health-related items, tax cuts and reductions in transfers from the federal government.⁸

Arguments that our publicly funded health care system is unsustainable because it accounts for an ever-increasing share of government funding often depend on the premise that tax rates must be fixed or continually declining. This as-

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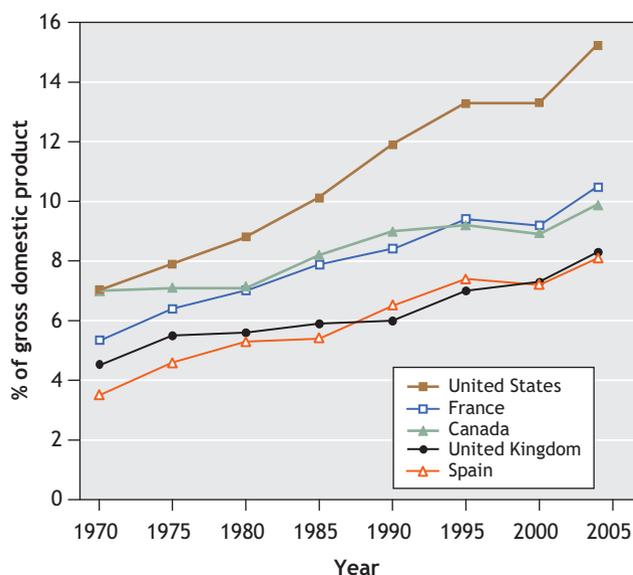


Figure 1: Health care expenditures as a percentage of the gross domestic product in 5 selected countries.

sumption, however, is open to challenge. Over the last 20 years, although the share of government tax revenue in Canada as a proportion of our gross domestic product (GDP) has remained essentially constant at 33%, many other economically advanced countries have quietly been increasing taxes. In 1985, members of the Organisation for Economic Co-operation and Development (OECD), a group of 30 countries “committed to democracy and the market economy,” collected taxes at an average rate of 30% of their respective GDPs. By 2004, these countries were collecting taxes at an average rate of 36% of GDP.⁹ Although some might argue that the overall taxation level in the United States is a more appropriate benchmark for Canada than the OECD average, others would argue that comparing ourselves exclusively to the United States leads to an artificially constricted range of policy options for Canadian decision-makers. Had our taxes increased at even half the rate of those among the OECD countries, the argument that health care expenditures are unsustainable because they account for an ever-increasing share of government spending would be far less viable.

For the reasons I have described, it is problematic to assess sustainability on the basis of health care spending as a share of government expenditures. Would it be better to consider health care spending as a share of GDP instead?

Is the increasing economic burden of health care sustainable?

The prevailing view that health care spending is rising faster than both inflation and the growth of the economy is correct. However, the difference between health care spending and economic growth is smaller than many assume. Health care spending (in both the private and public sectors) accounted for 7% of Canada’s GDP in 1970, and 9.9% in 2004.¹⁰ Con-

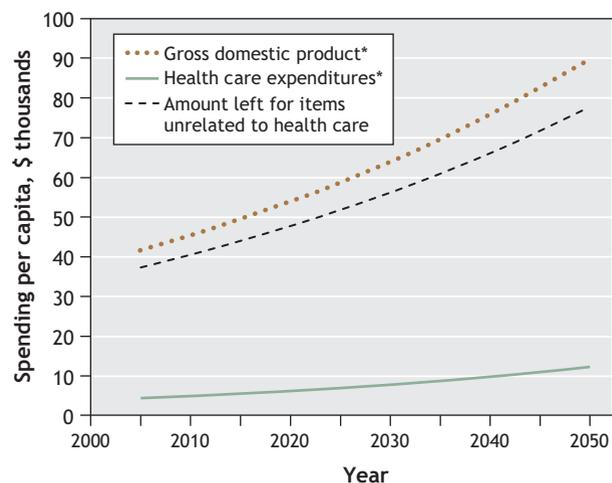


Figure 2: Long-term projections for per capita spending on health care and other non-health-related items in Canada. *The projections assume an annual growth rate per capita of 2.3% in health care spending and of 1.7% in gross domestic product.

trary to popular belief, the larger part of the increase actually occurred over the first half of the last 35 years. Similar increases have occurred in other countries, and in many cases they have been even larger than those in Canada. For example, health care spending in Spain was 3.5% of the GDP in 1970 and 8.1% in 2004; in the United States, the corresponding numbers were 7% and 15.3% (Figure 1).¹⁰

Moreover, to measure health care spending as a percentage of GDP obscures an extremely important fact: over the last 35 years, the economy in all economically advanced countries has been growing. This growth has allowed us to spend more, not only on health but on a variety of other goods and services as well. In terms of sustainability, spending on health care itself is unimportant; what matters is how much we have left to spend on our other needs and desires. In other words, growth in health care spending is sustainable provided it does not reduce the average Canadian’s ability to purchase non-health-related goods and services.

Over the last 35 years, despite the phenomenal growth in health care spending, we have still had enough left to spend ever-increasing amounts on non-health-related goods and services. How is this possible? Imagine a country where spending on health care is \$1 per capita and the GDP is \$100 per capita. If, over 50 years, health care spending increases by 100 times, to \$100, and the GDP increases 10 times, to \$1000, the amount of money left for non-health-related spending has still increased from \$99 to \$900. In other words, the citizens of this imaginary country would have seen their health care spending increase from 1% of GDP to 10% of GDP and would still have almost 10 times as much money left for non-health-related spending. Some would call this the miracle of economic growth.

From 1992 to 2004, real per capita spending on health care (i.e., after exclusion of the effects of inflation) in Canada increased at a rate of 2.3% per year.¹⁰ During the same period,

real per capita economic output (GDP) increased at a rate of 1.7% per year.¹¹ If these growth rates were to continue indefinitely (and these numbers are similar to those forecasted by at least one provincial government⁸), the amount of money left for non-health-related spending would continue to increase for well over a century (Figure 2).

Conclusions

Is our health care system unsustainable? I have argued that increases in health care spending are sustainable as long as growth in non-health-related spending can still occur. From the evidence I have presented here, one can see that non-health-related spending can continue to increase even if health care expenditures grow at a faster rate than that of the GDP, provided the economy continues to grow over the long term.

Governments might argue that our health care system could still be unsustainable, if it were to crowd out other important government priorities, such as spending on child care or the environment. This argument would be true only if governments were incapable of increasing taxes.

An obvious and important question remains: *Should* health care spending continue to grow at current rates? To answer this question would require an analysis of whether we are obtaining value for the money we spend. Evidence on this point is limited; however, one recent analysis of health care spending in the United States (where costs are significantly higher than in Canada) concluded that overall increases in spending have provided “reasonable value.”¹² Given the limited strength of this evidence, it might be reasonable to argue that society has an interest in limiting further growth in health care expenditures. However, arguments that health care spending *cannot* grow at current rates are, because of the sustainability paradox, unsound.

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