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## ► Bending the healthcare cost curve in Canada

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Canadian governments received a pleasant surprise this year: expenditure growth on public health care in Canada finally appears to be slowing. What's unclear is if this slowdown is the result of provincial success in sustainably bending the cost-curve, or more short-term cost-cutting in response to slower economic growth or future federal health transfers.

For years, the sustainability of public-sector health spending has been at the forefront of a roiling policy debate in Canada. Unfortunately, it has tended to generate far more heat than light as participants argue about the most elemental facts that underpin their respective arguments. As public theatre, the sustainability debate offers the pretext for advocates outside government to present their preferred policy solutions to a problem that remains ill defined. In most cases, this debate collapses into an argument concerning the future role of the public or private sector in health-care funding and delivery.

Despite the current slowdown in health spending growth, health care continues to grow in size relative to other parts of provincial expenditure budgets. That means provincial

decision-makers continue to face extremely difficult decisions and tradeoffs. Moreover, as residents criticize their governments for the quality and timeliness of health services, provincial authorities are caught between the public's demands—improved quality, better access, more providers, improved infrastructure—and the requirement to demonstrate value for money, minimize tax burdens and avoid deficits.

Fortunately, most provincial governments are not interested in crude cost-cutting exercises. They remember only too well what happened when that cost-cutting approach was applied to health spending in the early to mid 1990s. These cuts reduced both quality and access and, in any event, were not sustained in the long run.

But before jumping to conclusions, it's important to understand the size of the increases, as well as the factors that have contributed to recent growth in health spending.

*A common theme that unites all these discussions is that while efficiencies and better value for money need to emerge, fundamental reforms to the management and delivery of health services are also required even if there is considerable controversy over the direction and details of the changes needed.*

- Gregory P. Marchildon, Johnson-Shoyama Graduate School of Public Policy; Livio Di Matteo, Lakehead University

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The growth of public-sector health spending in Canada from 1975 until 2008 can be divided into three phases. The first, from 1976 to 1991, was marked by rapid growth, averaging 2.6% a year in real (inflation-adjusted) terms. This was followed by a short but severe period of fiscal retrenchment from 1992 to 1996, when governments dealt with fiscal deficits, in part by constraining or reducing their respective health budgets. The third was a growth phase that averaged 3.5% per year (after adjusting for inflation), from 1997 until 2008.

A 2011 Canadian Institute of Health Information (CIHI) analysis of cost drivers focusing on the period 1998 to 2008 found that total public-sector spending on health increased at an average annual rate of 7.4%. Population growth contributed an average of 1% per year to the increase, while population aging contributed only 0.8%, making demographic factors relatively modest contributors at 1.8%. In contrast, other factors such as health-sector inflation, technology and increased utilization contributed the remaining 2.8%.

Canada—like most advanced industrial countries—now appears to have entered a new phase of lower growth since the fiscal crisis of 2008. Indeed, adjusting for inflation and population growth, per capita provincial and territorial government health expenditures have actually declined since their peak in 2010. According to CIHI, as a share of gross domestic product, total health spending in Canada declined from 11.6% in 2010 to an estimated 11% in 2014.

So, is this slowdown a blip on the healthcare horizon, or is it the beginning of a trend? What challenges remain as we approach health care policy in the 21st century?

Some of the answers to these questions are found in the recently published volume of a new series entitled *Public Policy and the Provincial State*, sponsored by the Johnson-Shoyama Graduate School of Public Policy and published by University of Toronto Press. *Bending the Cost Curve in Health Care: Canada's Provinces in International Perspective* (2015) examines the management of growing health costs through both Canadian and international perspectives.

With chapters authored by leading experts from around the world, the book provides a number of policy lessons on the challenges governments face in ensuring the sustainability of publicly financed health care. Case studies from the United States, the United Kingdom, Australia, the Nordic countries and Taiwan offer useful reform experiences for provincial governments. The volume also explores cost drivers and factors common to all provincial governments such as pharmaceuticals, health human resources, aging populations, payment systems, outsourcing of services and the role of the federal government.

For example, Uwe Reinhardt, one of the most renowned health economists in the world, presents his reflections on these challenges – issues he has been addressing in one form or another for almost 50 years. As a young German who immigrated to North America in the early 1960s, Reinhardt attended the University of Saskatchewan during the doctors' strike of 1962 and witnessed the introduction of universal medicare in that province. He subsequently pursued graduate studies in the United States, later taking a permanent academic appointment at Princeton University. In simple but penetrating language, he explains the general rationale for cost control and the potential approaches to containment of health costs, including a review of payment systems and approaches to controlling the price that governments and consumers pay for health providers and services. He questions whether provincial governments have truly taken full advantage of the benefits of their single-payer administrative systems to make health care more sustainable in Canada.

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With the continued aging of the Canadian population, the diffusion of new health care technologies, and increased pressure for other public spending, we anticipate health care costs will continue absorbing the energies of governments in Canada for years to come. And bending – or breaking – the cost curve, will remain a perpetual challenge. Here's why.

1. Bending the health-care cost curve is a long-term process that is much more than a quick cost-cutting exercise or yet another "structural re-organization." But the voting public is impatient for change. Governments have a time horizon that operates within four-year cycles and are expected to demonstrate substantive improvement in the short run.
2. When it comes to cost control, there must be an emphasis on prices as well as volume or numbers of health providers. Cost control attempts to date have focused mainly on the number of service and health-providers with "prices" remaining the undiscovered country. At the same time, however, one person's health spending is another person's income, and constraining fees will likely be vigorously opposed by those affected, even if a clear public benefit can be demonstrated.
3. While health system sustainability is about revenues and spending, most provincial governments have seemingly determined that they are not prepared to increase tax revenues. The basis for this decision seems to be rooted in a general public aversion to higher taxes and a need for competitive tax systems. At the same time, there is an inconsistency in public attitudes that desire more and better public health services but with fewer or lower taxes.
4. While policy should be evidenced-informed rather than belief-based, the complexity of health-system change makes it difficult to draw a straight line from one evidence-based improvement to health-system change as a whole. Indeed, improving the quality and quantity of evidence-based decision-making is perhaps the greatest challenge in systematically devising policies for bending the cost curve.
5. While comparative evidence is essential for a better understanding of policy problems, you cannot bend the health-care cost curve by cherry-picking reforms from other jurisdictions with other political and social contexts. Ultimately, solutions are devised within the context of specific political, economic, and policy

environments. Grafting quick fixes onto one health system, based on experiences in another, can quickly generate new problems to replace those they were intended to fix.

A major hurdle for health reform is that we need to decide exactly what changes we want to make in our health system. While there remains room to increase efficiencies and gain greater value for money, bending the cost curve requires fundamental reforms to the way we manage and deliver health services in Canada.

Another challenge is getting federal, provincial and territorial governments to agree on the basic values or principles we want to preserve and enhance as we reshape policies, structures and the regulatory environments of health care in Canada.

Both challenges are formidable but surmountable barriers to ensuring the sustainability of publicly-financed health care in Canada.

Addressing these challenges will fall mainly on the shoulders of our provincial governments, and of course, the electorates they serve. However, the federal government also has both the potential and the responsibility to play an important role.



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Gregory P. Marchildon currently holds a Canada Research Chair in Public Policy and Economic History, and is a professor in the Johnson-Shoyama Graduate School of Public Policy at the University of Regina campus. He is a fellow of the Canadian Academy of Health Sciences, a founding member of the Pan-Canadian Health Reform Analysis Network (PHRAN) and associate editor of PHRAN's journal, the *Health Reform Observer*. He is also PHRAN's representative to the European Observatory on Health Systems and Policies' networked platform, the Health Systems and Policy Monitor. In 2001 and 2002, Marchildon served as the Executive Director of the federal Royal Commission on the Future of Health Care in Canada, a position he acquired after his appointment as Saskatchewan's Cabinet Secretary and Deputy Minister to the Premier (1997-2000). During his time with the province, Marchildon advised Cabinet on the establishment of the *Fyke Commission on Medicare*. For more information, visit [www.gregmarchildon.ca](http://www.gregmarchildon.ca)



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Livio Di Matteo is an economist and professor at Lakehead University, where he specializes in public policy, health economics, public finance and economic history. He holds a PhD from McMaster University, an MA from the University of Western Ontario and an Honours BA from Lakehead University. Di Matteo's research explores the determinants of health expenditures, the public-private split in health spending and the sustainability of provincial government health spending. He is a member of the CIHI National Health Expenditure Advisory Panel, the Evidence Network ([EvidenceNetwork.ca](http://EvidenceNetwork.ca)), is a contributor to the economics blog *Worthwhile Canadian Initiative* and is a senior fellow of the Fraser Institute. His historical wealth research using census-linked probate records is funded by grants from the Social Sciences and Humanities Research Council of Canada. He has constructed, assembled and analyzed nearly 12,000 estate files for Ontario over the period 1870 to 1930 and analyzed the determinants of wealth and inequality. For more information, visit [www.lakeheadu.ca/users/D/ldimatte](http://www.lakeheadu.ca/users/D/ldimatte).

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*People who are passionate about public policy know that the Province of Saskatchewan has pioneered some of Canada's major policy innovations. The two distinguished public servants after whom the school is named, Albert W. Johnson and Thomas K. Shoyama, used their practical and theoretical knowledge to challenge existing policies and practices, as well as to explore new policies and organizational forms. Earning the label, "the Greatest Generation," they and their colleagues became part of a group of modernizers who saw government as a positive catalyst of change in post-war Canada. They created a legacy of achievement in public administration and professionalism in public service that remains a continuing inspiration for public servants in Saskatchewan and across the country. The Johnson-Shoyama Graduate School of Public Policy is proud to carry on the tradition by educating students interested in and devoted to advancing public value.*