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Health Care Cuts: Who's to Blame?

By David Robinson

When the federal and provincial ministers of health meet this week to discuss the future of health care, one can expect a face-off of classic Canadian proportions. In one corner stand the arch-conservative premiers of Ontario and Alberta, who didn't exactly build their reputations as champions of medicare, trying to pin all that ails medicare on Ottawa. In the other corner looms a federal government that, at the same time as disguising itself as the great defender of medicare, has quietly done its best to unravel the system. The provinces say Ottawa is bleeding the system dry. The federal governments says it is contributing more than ever. Left on the sidelines are all those Canadians trying to figure out why they're facing long waits for care, over crowded hospitals, and fees for services formerly covered under medicare.

So who really is to blame for this mess?

The provinces are right in claiming that Ottawa has bled billions out of provincial social programs since the introduction of the Canada Health and Social Transfer (CHST) in 1996. As shown in Table 1, in 1995-96, the federal government's total cash transfer to the provinces for health care, post-secondary education and social services came to about $18.5 billion. By 1997-98, one year after the implementation of the CHST, that figure had fallen to $12.5 billion — a decline of more than 32%.

The provinces are also right when they say they've cushioned the impact of federal cuts. As illustrated in Figure 1, provincial health care spending measured on a per capita and constant dollar basis, after declining for much of the 1990s, has rebounded in recent years and recovered to its pre-CHST levels.

But, as the federal government counters, that's just one part of the picture. If only the provinces were focused less on cutting taxes and more on investing the lucrative "tax points" Ottawa granted them 20 years ago into health care, the problem would be less acute.

To fully appreciate this line of argument, we need to go back to 1977. As part of a complicated restructuring of federal transfers in that year, Ottawa and the provinces agreed to maintain funding for social services under the Canada Assistance Plan (CAP) but to replace cost-sharing of health and post-secondary education with a block fund (Established Programs Financing). The new EPF agreement

Table 1
Federal Transfers (CAP/EPF and CHST), 1993/94 to 2003/04 $Bill.

	Cash	TaxPoint	Total
1993-94	18.8	10.2	29.0
1994-95	18.7	10.7	29.4
1995-96	18.5	11.4	29.9
1996-97	14.7	12.2	26.9
1997-98	12.5	13.3	25.8
1998-99	12.5	14.2	26.7
1999-00	14.5	14.9	29.4
2000-01	15.5	15.3	30.8
2001-02	15.5	15.8	31.3
2002-03	15.5	16.5	32.0
2003-04	15.5	17.2	32.7
% change 93/94 to 2003/04	-17.6%	68.6%	12.8%

Source: Finance Department, The Budget Plan 2000.

provided for both a continuing cash transfer to the provinces as well as a one-time tax transfer. Under the latter arrangement, Ottawa reduced its personal and corporate income tax rates, allowing the provinces to raise theirs by an equal amount — in effect "transferring" tax revenue from federal to provincial coffers.

The value of this tax transfer has continued to grow in line with growth in the economy. Ottawa insists that this represents an ongoing federal commitment to provincial social programs. In truth, the transferred tax points simply flow into general revenue and are not specifically earmarked for health or post-secondary education.

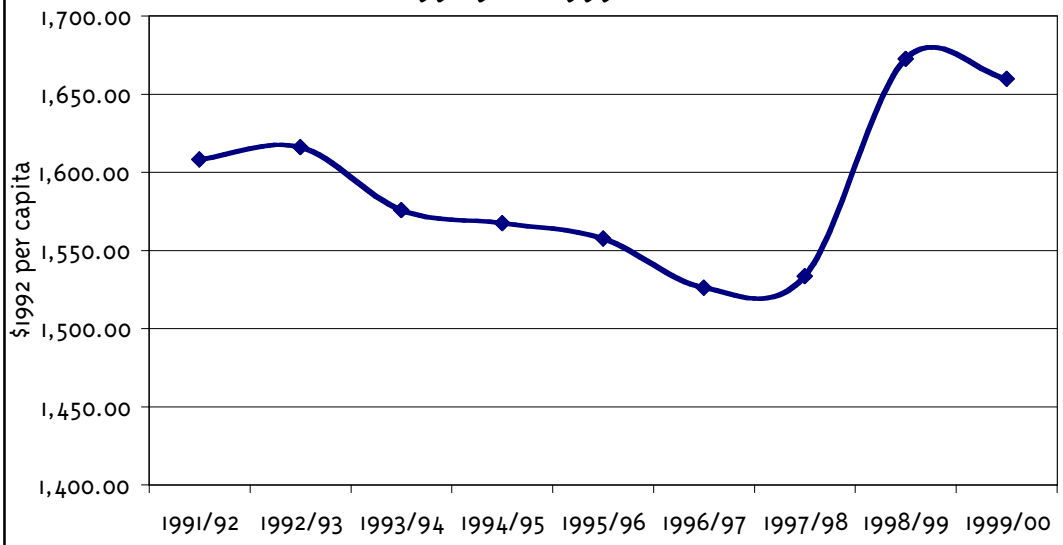
Nevertheless, the existence of these mysterious "tax points" helps explain why Ottawa can at least pretend it is contributing more to health care than ever before, even as cash transfers have nosedived. As further shown in Table 1, the value of these tax points are projected to rise by a whopping 68.6% from 1993-94 to 2003-04, from $10.2 billion in 1993/94 to an estimated $17.2 billion in 2003-04. So, when you add both the cash transfers and, for the sake of argument, the value of tax points, Ottawa is right that the total value of transfers this year will exceed their previous high points.

But there's an important catch here. Ottawa's calculations fail to take into account the effects of inflation or growth in population over this period. Transfers could be rising, but if inflation and population growth is rising faster, the quality of services people receive will decline.

Figure 2 presents the real (i.e. adjusted for inflation) and per capita value of federal transfers from 1993/94 to 2003/04. As shown, the real value of per capita cash transfers plummeted from about $646 in 1993/94 to $381 in 1997/98. And even with the increases in CHST funding announced in the last two federal budgets, per capita cash transfers are projected to recover only modestly to about $412 in 2003-04 — or 36% below their 1993/94 levels.

As also illustrated, the value of tax points has risen in real terms, from about $349 per capita in 1993/94 to an estimated $457 in 2003/04. But what is particularly revealing is that even with the increase in tax points the total per capita transfer is still 12.6% below its 1993/94 peak level. That means that, even if we accept the federal government's dubious argument that tax points rightly constitute a continuing part of its contribution to medicare and other provincial programs, the real per capita value of Ottawa's combined contribution remains well below that of the mid-1990s.

Figure 1: Provincial and Territorial Health Care Spending, 1991/92 to 1999/2000



Source: Calculations based on Statistics Canada, Provincial and Territorial Government Revenue and Expenditures, FMS Basis

And what is missing from both sides of the debate thus far is that the loss of federal cash funds, even if somewhat offset by tax points, is still devastating. The key problem arises from the fact that fiscal clout is the primary way Ottawa enforces provisions of the *Canada Health Act*. The five conditions of the Act — universality, comprehensiveness, accessibility, portability and public administration — can be upheld only through the lever of federal cash transfers. If a province violates any of these conditions, Ottawa can withhold cash transfers. With less cash, there is less clout.

And that's where the rhetoric of Mike Harris and Ralph Klein rings hollow. They want more federal health dollars — most likely to open up further fiscal room for tax cuts — but they don't want any conditions attached to those dollars. For Canadians worried about the future of medicare, there is little relief in sight.

Clearly, the time for petty squabbling is over. Restoring the fiscal health of health care and other programs is a priority that neither Ottawa nor the provinces can ignore any longer.

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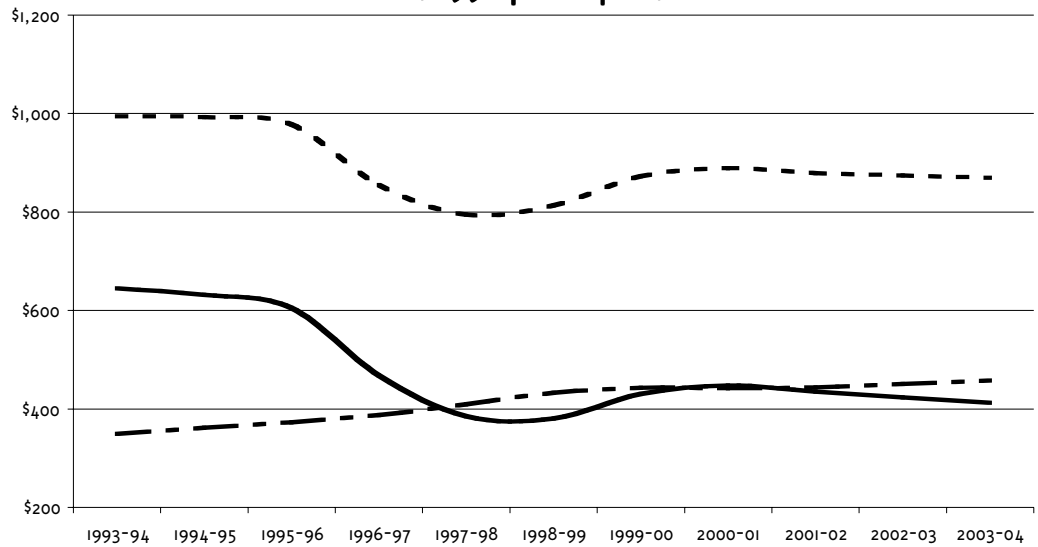
Figure 2: Federal Cash and Tax Transfers, 1993-94 and 2003-04 ($1992 per capita)



Source: Calculations based on Department of Finance, *Fiscal Reference Tables; Canada Health and Social Transfer Estimates,* various years.

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