

The

Ontario Alternative Budget 2001

Selling Ontario's Health Care
The real story on government spending
and public relations

Technical Paper #11

by **Bill Murnighan**

Canadian Centre for
Policy Alternatives/Ontario

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We will not cut health care spending. It's far too important. And frankly, as we all get older, we are going to need it more and more. Under this plan, health care spending will be guaranteed.

Mike Harris, *The Common Sense Revolution*, May 1994

We're investing more in health care than any previous government has - at any point in Ontario's history.

Ontario's Minister of Health, Elizabeth Witmer, spring 2000

*By next year we'll have increased health funding by more than \$5 billion than what was promised in *The Common Sense Revolution*.*

Premier Harris's Web site (www.premier.gov.on.ca), April 2001.

Given your own experience with the Ontario health care system over the last six years, do you find it hard to believe that health spending has actually increased? If you do, you're not the only one. But Mike Harris desperately wants us to believe that spending has gone up - so desperately, in fact, that he's betting his political future on it.

The Common Sense squeeze

To see what's at stake, let's go back to the beginning. When the plans for the Common Sense Revolution were laid, the "revolutionaries-in-waiting" knew that there was one part of public life that was too important and valued to be squeezed along with the rest. They knew (despite their unwavering faith in private, for-profit, markets), that the public health care system was a defining feature of Canadian life. And they also knew that Ontarians of all political stripes clearly understood what access to a well-funded pub-

lic health care meant for their health and for their families' well-being.

More importantly, however, the revolutionaries also knew that any government that was seen to be damaging health care would pay a swift and heavy price.

These realizations put the Tories in a bind. With health care traditionally claiming more than a quarter of provincial government spending, how could the Mike Harris gov-

ernment shake out billions of dollars for tax giveaways while keeping the system strong? **The simple answer is that it couldn't – and our health care system has suffered tremendously as a result.** Yet this fact hasn't stopped the Tories from trying to convince Ontarians otherwise.

When you're boxed in, as Mike Harris has been, there are only a few ways to get out. Confronting reality with a forceful, simple message is known in the advertising and public relations world as "the big lie." For the last six years, rather than be up-front with Ontarians about the choices his government has made, Mike Harris has tried to convince us that any troubles we see in our health care system simply cannot stem from a lack of funding.

At first, the Common Sense revolutionaries promised to re-invent our public system, but to "safeguard" health spending. As the hidden cutbacks and restructuring took their obvious toll, "safeguarding" wasn't enough. So while he boasted about the cuts (or "savings") he made across the public sector, in health care spending Mike Harris's message changed dramatically: "More is better," he told us.

Today, the Harris Tories find themselves in a new box, and the message on health care spending is shifting once again. Tax giveaways to corporations and the wealthy have eaten up too much of the government's fiscal maneuvering room (despite bulging government coffers filled by years of export-led

economic growth), and something has to give way. Adding to this self-induced financial pressure, Mike Harris's corporate health care backers feel that they have been waiting too long on the sidelines: they're eager to get more deeply involved in our health care system.

As we head toward the next provincial budget, a new message is developing, and it is aimed to ease the pressure on both fronts. It goes something like this: "We've been spending too much on health care - it's simply unsustainable - and now we've got to find ways to control the costs, perhaps with the help of the private sector."

Giving a boot to the big lie: Ontario's health care crisis explained

This year's Ontario Alternative Budget analysis of health care spending takes a closer look at the books. This paper:

- reveals that health spending has not grown in real terms during term of Harris government;
- shows that years of cutbacks now mean we have a \$4.1 billion health care deficit;
- includes, for the first time, the impact of aging on the government's health care system;
- uncovers evidence of the massive sums of money spent on severance packages and termination pay to help Ontario shed 25,000 health care workers;
- shows that private spending continues to soar and outlines the lessons we can

- learn from our two-tier drug system; and
- highlights how the Harris government intends to change its health care message to pave the way for more privatization.

Is health care spending falling behind?: A look at the numbers

Because the health care system is so large compared to other public programs, it's easy for the government to toss out big spending numbers that are meant to amaze. If you listen to the Ontario government's advertising on health care, you'll hear how "billions" (and "billions" more) are being spent – these numbers are given to us as some sort of proof of Mike Harris's commitment to the system.

But the numbers ignore some of the basic facts of life, facts that every family on a budget understands: costs go up over time and (as is the case in Ontario) the family keeps getting bigger. Accounting for these two simple truths casts Mike Harris's health spending claims in an entirely different light.

But inflation and population growth aren't the only two factors to consider. The baby boom generation is aging, and this will have a crucial impact on many social programs, particularly health care.

Analysts of health care spending have always known that an aging population means increased health care costs. The question

Figure 1. Ontario Government Spending on Health Care

Fiscal Year	Health Care Operating Expenditures ¹ (millions \$)	Health Care Price Index, Ontario ² (1992=100)	Inflation-Adjusted Expenditures (millions 2000\$)	Aging Impact On Costs ³	Aging and Inflation-Adjusted Expenditures (millions 2000\$)	Ontario Population ⁴ (t thousands)	Real Per-Person Expenditures (2000 \$)
1994-95	\$17,599	103.9	\$19,632	0.00%	19,632	10,827	\$1,813
1995-96	17,607	104.0	19,622	0.79%	19,467	10,965	\$1,775
1996-97	17,760	105.1	19,585	1.58%	19,276	11,101	\$1,736
1997-98	18,284	107.1	19,786	2.37%	19,317	11,249	\$1,717
1998-99	18,868	110.6	19,772	3.16%	19,147	11,386	\$1,682
1999-00	20,600	112.8	21,166	3.95%	20,330	11,517	\$1,765
2000-01	22,500	115.9	22,500	4.74%	21,433	11,669	\$1,837
2001-02	22,600	119.1	21,995	5.53%	20,779	11,823	\$1,757
2002-03	22,700	122.4	21,501	6.32%	20,142	11,979	\$1,681
2003-04	22,700	125.7	20,926	7.11%	19,438	12,138	\$1,601
2000-01 vs. 1994-95	27.8%	11.5%	12.7%	4.7%	8.4%	7.8%	1.3%

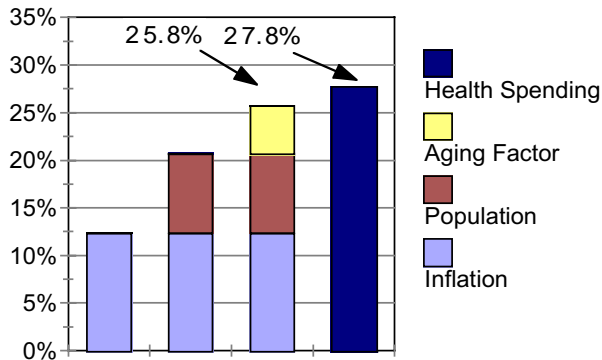
1. Health Care Operating Expenditures, Public Accounts 1994-95 through 1999-2000. For years through 2001-2004, Ontario government, Premier's Website, "Quality Healthcare," April 11, 2001 (www.premier.gov.on.ca) Government claims 2003-2004 spending commitment will be met ahead of schedule. In this analysis the 2003-04 spending commitment is fully implemented in two phases by 2002-03, with stable funding thereafter.

2. Statistics Canada, Cansim Matrix 9946.1.6.1/P10608 inflation projected at 2.75% 2001-02 forward.

3. The Ontario Hospital Association has estimated the impact of aging on health care costs in Ontario. After accounting for the impact of inflation and population growth, aging alone is estimated to increase costs by 0.79% per year through 2006. Ontario Hospital Association, "The impact of Population Aging on Health Care spending in Ontario," February, 2000. (www.oha.com)

4. Canadian Institute for Health Information Population growth projected at 1.32% 2001-2 forward.

Figure 2. Spending Barely Keeps Up
2000-01 vs. 1994-95



- the price of health care has increased by 11.5%;
- the population of Ontario has grown by 7.8%; and
- the aging of the population means that we needed to spend a further 4.7% just to maintain standards.

until recently had been, “How much?”. Now, thanks to a study released last year by the Ontario Hospital Association (OHA), *The Impact of Population Aging on Health Care Spending in Ontario*, we have an answer.

Because these factors build on one another, Ontario needs to be spending 25.8% more today than was spent before Mike Harris came to power just to keep up. This fiscal year, following a short-term boost, official spending levels are now 27.8% higher than in 1994-95, although much of this is likely to be one-time spending (see Figures 1, 2 and 3).

The OHA study examines the health care needs of different age groups and tracks how – and when – our population will age. To see how important aging can be, consider that the provincial government spent an average of about \$1,000 per forty-year-old in 1997, compared to about \$4,000 per 70-year-old.

Looked at another way, Ontario was spending \$1,813 per person on health care (in today’s dollars) in the year before Mike Harris came to power, and claims it will spend \$1,837 this fiscal year. **Against this backdrop, it’s sheer fiction for the Ontario government to claim that health spending is out of hand and unsustainable.**

The study concludes that, *in addition to the impact of both inflation and population growth, an aging population means that we need to spend 0.8% more on health care per year (through 2006) to maintain current standards.* The annual amount, although significant, is not huge, and it certainly shouldn’t be a surprise to anyone.

Consider these factors (that are obvious to every kitchen-table economist dealing with a family budget) – since the Harris government came to power:

Figure 3. Health Spending Set to Fall
...despite short-term boost

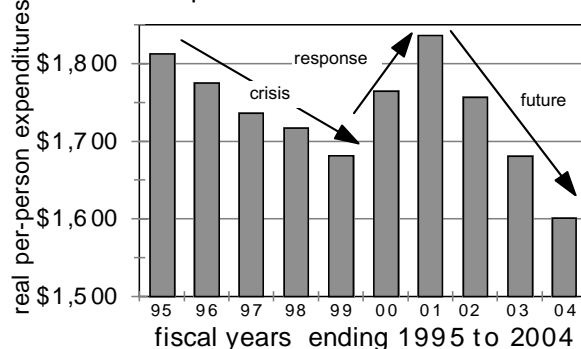


Figure 4. Mounting Deficit in Real Health Care Spending

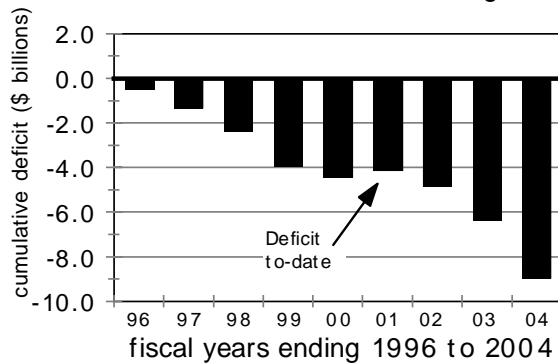
<u>Fiscal Year</u>	<u>Real Per-Person Expenditures</u> (2000\$)	<u>Decline from 1994-95 in Per-Person Expenditures</u> (2000\$)	<u>Per-Person Cumulative Deficit</u> (2000\$)	<u>Province-wide Annual Deficit</u> (Millions 2000\$)	<u>Province-wide Cumulative Deficit</u> (Millions 2000\$)
1994-95	\$1,813	\$0	\$0	\$0	\$0
1995-96	1,775	38	\$38	414	414
1996-97	1,736	77	\$114	852	1,266
1997-98	1,717	96	\$210	1,079	2,345
1998-99	1,682	131	\$342	1,497	3,842
1999-00	1,765	48	\$390	552	4,395
2000-01	1,837	(24)	\$366	(276)	4,119
2001-02	1,757	56	\$422	658	4,777
2002-03	1,681	132	\$554	1,578	6,355
2003-04	1,601	212	\$765	2,569	8,924
2000-01 vs. 1994-95	\$24	(24)	\$366	(\$276)	\$4,119

In response to a public outcry over the crisis in health care, the government promised to increase spending to \$22.7 billion by 2003-4. They are now proclaiming that they will reach this spending level earlier than expected. **But even allowing for the spending commitment to be reached a year early, real per-person spending is set to drop even further after this short-term boost** (see Figures 4 and 5).

Despite the recent backpedaling, current health spending *still* doesn't make up for years of under funding. **So far, the Harris government has spent \$366 less per person on health care, in real terms, than would have been spent had stable funding been maintained.** Adding it up across the province means that today we have a \$4.1 billion health deficit.

And unless the government restores real funding levels, we can expect the health care deficit to reach nearly \$10 billion within two years.

Figure 5. Health Spending Deficit Grows
...\$4.1 billion so far, and counting



"Boomerang" health care: Lay them off, hire them back

The Mike Harris team is putting more health care dollars into the front-line services that people depend on.

Premier Mike Harris's Web page
(www.premier.gov.on.ca), April 2001.

We know that health care spending hasn't kept up with the inflation, population growth, or aging, but what part has government-led restructuring had in the crisis?

The public records show that \$590 million has officially been spent on hospital restructuring so far. But what we can't see are the largely hidden (and enormous) costs of severance and termination pay for hospital and long-term care staff who were laid off as Harris made his damaging cutbacks.

Since this government came to power, Ontario has shed one in twelve of its hospital and long-term care staff - nearly 25,000 people. Yet the province has grown by three-quarters of a million people since then. At fiscal year-end 1995, there were 26 hospital and long-term care staff for each 1,000 Ontarians. Today, this number has dropped to just over 22 staff per 1,000 people.

If stable staffing ratios had been maintained, Ontario would have 47,000 more hospital and long-term care staff than we do today (see Figure 6).

Beyond providing stark evidence of the dramatic cutbacks in health funding, the employment figures also highlight the "boomerang" effect on health care after the government's disastrous experiments backfired: The system is now scrambling to hire staff back.

Figure 6. Fewer Hospitals and Long-term Care Staff, More Operating Spending

Year	Ontario Hospital Staff ¹ ('000)	Ontario Long-Term Care Staff ² ('000)	Total Staff ('000)	Ontario Population ³ ('000)	Staff per 1,000 Ontarians	Missing Staff ('000)	Hospital Operating Spending ⁴ (millions \$)	Long-Term Care Operating Spending ⁵ (millions \$)
1995	182.4	103.9	286.3	10,965	26.1	0	\$7,900	\$2,163
1996	175.6	89.2	264.8	11,101	23.9	25.0	\$7,789	\$2,223
1997	175.6	90.2	265.8	11,249	23.6	28.0	\$7,927	\$2,201
1998	171.2	88.2	259.4	11,386	22.8	37.9	\$7,286	\$2,456
1999	167.0	87.9	254.9	11,517	22.1	45.8	\$8,153	\$2,772
2000	168.6	88.6	257.2	11,669	22.0	47.5	\$8,295	\$2,879
2001	173.7	88.2	261.9	11,823	22.2	46.8	\$8,938	\$3,175
Change From 1995	(8.7)	(15.7)	(24.4)	858.4	(4.0)	46.8	1,037.8	1,011.5
% Change	-4.8%	-15.1%	-8.5%	7.8%	-15.2%	-	13.1%	46.8%

1. Statistics Canada, CANSIM matrix: 017006, hospitals.

2. Statistics Canada, CANSIM matrix 017006, nursing and residential care facilities.

3. Canadian Institute for Health Information, National Health Expenditure Trends (1975-2000) Report, 2000.

4. Ontario Government, Public Accounts, selected years.

5. Ontario Government, Public Accounts, selected years.

If this weren't proof enough of gross mismanagement, what is more troubling is how deeply cynical the government has been in claiming that they are spending *more* on health care, when hundreds of millions of dollars have been spent to undo our system by laying its workers off.

To see this at work, consider this: At the same time that staff numbers started to plummet, provincial government spending transfers jumped dramatically. It is no surprise that, by 1999, staffing levels had *dropped* by nearly 10%, while operating spending was *up* by 10% (see Figure 7). And you only have to ask any health care worker to show you their paycheque to see how the spending increases certainly haven't been eaten up by wage gains.

The reason these huge costs are not immediately apparent in the government's books is because about half of the total health budget is handed over to hospitals and long-

term care facilities through transfer payments – where the spending details never become accessible.

In the recent Speech From the Throne, the Ontario government highlighted its plans to implement new accountability measures for public organizations such as hospitals (so we can all get a closer look at their books). This move is likely another attempt to point the finger at someone else by shifting blame to the same organizations that have borne the brunt of the Tory spending cuts.

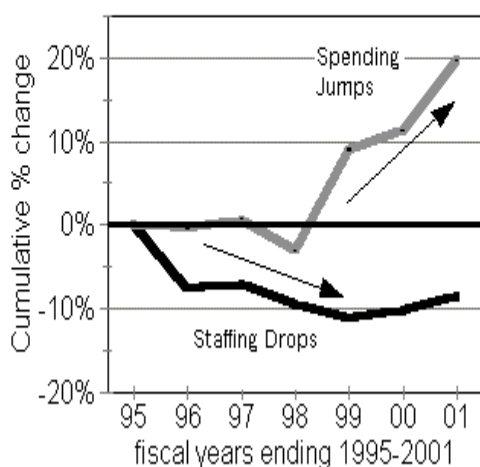
From the public's perspective, any move to greater transparency is welcome, but if **Premier Harris was really interested in accountability he would publish spending numbers going back five years, so that we could see – once and for all – the real costs of his health care fiasco.**

Blaming others for your mistakes

Mike Harris has shown how quick he is to blame someone else when things go wrong. No matter what the problem, he is never responsible. And health care is no exception.

Initially, health care funding was to be "safeguarded," but after years of crisis, emergency room shutdowns, ambulance re-directs, and coroner's inquests, the Tory message had to change, to leave room for the idea that there may be some trouble in the system. So Mike Harris simply blamed the federal government.

Figure 7. Fewer Staff, More Spending
...how much spent on severance?



This kind of finger-pointing has been tried on and off over the years, but as the government gears up for a new push toward privatization, the federal government has become Mike Harris's favorite hobby horse (which seems more than a little opportunistic, since he personally joined with the federal government last fall in signing the new health care accord).

Now, when he's confronted with any criticism of his health care record, Mike Harris produces his little chart showing how the federal government cut funding and simply claims that "its not my fault."

Lets take a look at some of the facts.

Harris claims that federal funding has been cut by \$1.7 billion annually, and that the federal government now only provide 10¢ out of every dollar spent on health care in Ontario. In response, the Chretien government claimed last year that their spending plans actually restore health funding, and that the federal share of each Ontario health care dollar was really 34¢. As our system slides further into disrepair, the sad reality is that both governments are playing games.

The truth is that the federal government did make drastic cuts in funding for health care and social programs (through the Canada Health and Social Transfer, or CHST) in 1996 and 1997, cuts that have not been fully restored to the system. And their recent attempts to deny the impact of these cuts is an insult to all Canadians.

Yet Mike Harris is conveniently forgetting about an extra \$440 million his government receives annually from Ottawa because of the move to equal per-capita entitlements across the provinces that were part of the package when the CHST was cut. He is also ignoring one-time CHST supplements, which are like the one-time funds he likes to count in his own spending. And, perhaps more importantly, the Ontario government's cuts to post-secondary education and social assistance means there should be more than \$1.25 billion of leftover CHST funding to spend on health care.

But the big story – which neither level of government wants to highlight – is that in good economic times, and when blessed with soaring government revenue, they both made the same choice at the urging of the business lobby: to shift enormous amounts of public funds into tax cuts that largely benefit the wealthiest among us, rather than to restore social programs.

As time marches on, Mike Harris will learn that he can't play this charade forever in an attempt to duck responsibility for the choices he's made.

Private spending soars: A look at the effects of two-tiering

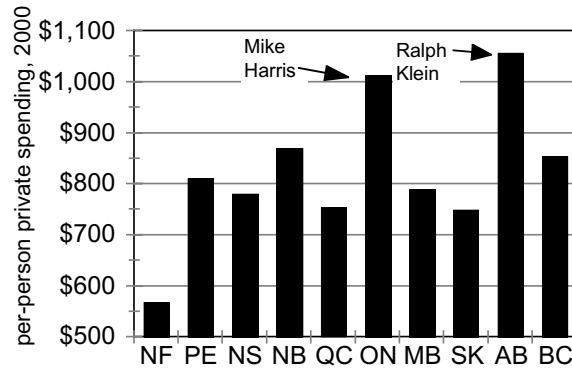
Private-sector involvement in our health care system doesn't have to be as obvious as a fancy private hospital with marble sinks and lots of staff (although a few people did briefly enjoy the King's Medical Health Cen-

tre, where you could get tips on your golf game while you recuperated – too bad about the owners’ recent jail sentences for fraud). Understanding what two-tier health care is all about can be as simple as looking in your wallet.

If you need health care, and you have the money to pay for it, you can get the care you need. If you can’t afford it, you’re out of luck. That’s how two-tier health care gets started, and that’s increasingly what’s happening in Ontario today.

The obvious flipside to falling public funding for health care has been a surge in private spending. Annual out-of-pocket health spending has reached \$1,012 per person in Ontario, up by \$209 since Mike Harris came to power in 1995 (see Figures 8 and 9). To see why private corporations are falling all over themselves to get a piece of Ontario’s health care spending because, just this \$209 per-person increase means another \$2.4 billion per year has been funneled into Ontario’s for-profit private health care sector.

Figure 9. Ontarians Paying More
..annual private spending tops \$1,000



Not surprisingly, a look across the country shows that private costs in Ontario have grown by 33% more than the average of the other provinces during the last six years. It’s also no accident that the only province outpacing Ontario’s level of private spending is Alberta, where Premier Ralph Klein recently tried to open private, for-profit, hospitals.

Prescription drugs: two-tier at work

To see how two-tier health care already plays out in Ontario, we have to look no further than at prescription drugs. The ways in

Figure 8. Private Sector Health Spending Per Person

Year	NF	PE	NS	NB	QC	MB	SK	AB	BC	Average Other Provinces	ON
1994	\$522	\$720	\$656	\$691	\$643	\$610	\$598	\$671	\$683	\$644	\$803
1995	521	766	661	657	646	646	609	698	703	656	860
1996	546	755	688	656	655	692	628	734	728	676	876
1997	543	777	713	727	689	719	675	836	757	715	909
1998	645	813	761	732	688	773	684	869	826	755	956
1999	564	801	756	818	732	766	722	975	821	773	977
2000	568	810	780	869	754	788	749	1,056	854	803	1,012
Increase 2000 vs. 1994	46	89	124	178	111	178	151	385	171	159	209

Source: Canadian Institute for Health Information, National Health Expenditure Trends (1975-2000) Report, 2000.

which Ontarians gain access to prescription drugs, and pay for them, is a perfect example of what's wrong with private health care.

A recent study by the Canadian Institute for Health Information (CIHI) gives us an up-close look at how spending on drugs is taking up an ever-larger share of health spending, and how more and more of that spending is coming from private sources. According to the CIHI study, private spending on prescription drugs (both out-of-pocket and through private insurers) averaged \$210 per person last year, up an astounding two-thirds since 1994.

It's not hard to understand why private spending has soared: health care is changing as drugs play an ever-greater role, and patients who used to stay in hospitals to recuperate (where drugs are covered by public plans) are now being sent home "quicker and sicker" with a prescription. On top of this, drug companies continue to push up prices to help them realize huge profits.

In Ontario, private spending on drugs is now worth nearly \$2.5 billion a year. But because there is no universal coverage, the burden falls particularly hard on some residents. A study commissioned by Health Canada (which only came to light last month, following a freedom of information request)[†], shows how unequal drug coverage in Ontario really is.

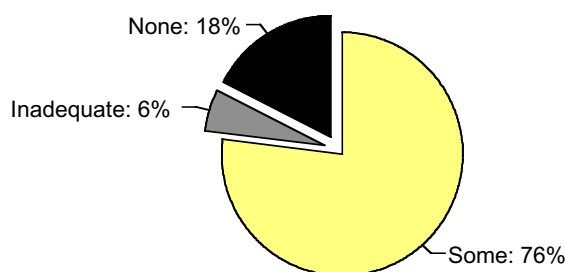
[†]A. Picard, Globe and Mail, March 14, 2001

The study reveals that more than two million people in Ontario have absolutely no drug coverage – the cost of drugs comes directly out of their pocket. And another 700,000 Ontarians have inadequate coverage, meaning that they get back less than 35 cents on the dollar from private insurers (to say nothing of what they pay in premiums). The authors report that most of the uninsured are the working poor (see Figure 10).

Health professionals tell us that all too often, when finances are tight, patients choose not to fill prescriptions, unnecessarily limit their usage, or stop treatments altogether. This leads to complications and more health care costs down the road.

Our experience with two-tier drug coverage highlights how the burden of paying for health care falls hardest on people when they can least afford it and that the system leaves millions without protection. And all too often, the health of those without the means

Fig. 10. Drug Costs Fall Hard on Some
...nearly 1 in 5 has no coverage



or protection is compromised, meaning worse health and a greater demand on the overall health care system down the road.

These problems are precisely the opposite of what health care in Canada is supposed to be about. But that is exactly what is happening today in the prescription drug system. And that kind of scenario will play itself out throughout our entire health care system as it is overwhelmed by further privatization.

Rebuilding Health Care

Despite the Ontario government's attempts to use big-sounding spending numbers, health care funding has not kept up with simple inflation, population growth, or the impact of aging. Attempts to gloss over these simple factors wouldn't pass the test of kitchen-table economics.

In response to a self-made crisis, there has been a short-term recovery in funding, but real health spending is set to fall again. **Today, there can be no argument that spending is out of control.**

A closer look reveals that money for the health care system has not gone, as we might expect, for more or better health care, but in fact has gone to clean up the mess as Ontario shed 25,000 health care staff (and now

turns around and tries to hire thousands of workers back again).

Against this backdrop, there is no wonder that private spending on health care has soared, and we're facing the emergence of a permanent two-tier health system. And our experience with prescription drugs shows us where we're headed.

Now, after squandering billions on unnecessary tax giveaways to the wealthy and his corporate backers, we face the prospect of Mike Harris making phony arguments that health costs are a problem as he paves the way for more privatization.

As we gear up for yet another round of public relations maneuvering, we should always be aware that privatization is entirely about further rewards for Mike Harris's corporate backers. No one has reasonably shown that a privatized health system – whether it's more spending by ordinary citizens, or the profit-driven delivery of services – provides better or more cost effective care – anywhere that it has been tried.

Ontario has the resources, and the capability, to rebuild our health care. And Ontarians, like all Canadians, want to know that their health care system is strong and will be there when they need it: They won't be sold on anything less.