

Health funding needs adjustment

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Commentary

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Nearly five years has passed since the release of the Romanow Report on health care in Canada. Its title, *Building on Values*, suggested the existence of a consensus on some broad goals of health care provision in Canada. Chief among these values was, and I presume still is, equality of access to services.

Proponents of universal access should beware 2014, the year in which Ottawa has proposed to start dividing its cheques to provinces under the Canada Health Transfer on a per capita basis. If Ottawa carries through on this proposal, it will miss a rare opportunity to transform Canada's haphazard and history-driven health care funding system into one that explicitly gives more money to the provinces that need it most.

Provincial governments can differ in need for two reasons. Firstly, some have weaker tax bases than others, so that they have more difficulty raising money through taxes. Secondly, the cost of providing health care varies among provinces.

Unequal access to revenue is dealt with, perhaps imperfectly, by Equalization. Adjusting health care dollars for this sort of need runs the risk of duplication. Adjusting grants for differences in cost, on the other hand, is essential to ensuring that each province has the resources it needs to provide comparable levels of service without overburdening their respective taxpayers.

Ideally, a needs-adjusted health care grant would be based on a full accounting of the differences in health care costs among provinces. It would take reams of reports and teams of bureaucrats to calculate the resulting division of federal funding. Failure to arrive at the perfect adjustments, correct to two decimal places, is not cause to abandon the exercise. Ottawa might be reasonably expected to adjust its transfer on the basis of widely accepted and easy-to-measure determinants of cost pressure on provincial health plans. No such determinant is more widely cited nor so consistently measured as the provincial demographic profile.

A person's age and, to a lesser extent, sex, is highly correlated with the amount and type of medical attention one needs. As a result, provinces spend more of their health dollars on some groups than on others.

Not surprisingly, provinces spend the most per person on those over the age of 75, followed by children under one year of age.

Provinces that have the highest proportions of residents in these age categories need to spend the most to provide the same level of service.

Indeed, the Canadian Institute for Health Information reports that during 2002 demographic factors inflated health care costs in New Brunswick by 3.6 per cent, relative to the Canadian average. This being the case, a needs-adjusted health care grant should provide 3.6 per cent more to the New Brunswick government than would a per-capita allocation.

Ottawa cannot make the claim that needs-adjustment should be rejected as a matter of principle, for whatever principle it might violate has already been sacrificed in such programs as the ecoTrust initiative that gives proportionately more to smaller provinces on the grounds that environmental cleanup projects must be of a sufficient size to become viable. Likewise, successive governments have, with good reason, justified Territorial Formula Financing by arguing that the costs of doing government business are particularly high in the North.

Unlike the adjustments for need inherent in these programs, dividing health care money based on demography makes the nature of adjustment transparent and allows the allocation of funds to respond to changes in circumstances as provincial populations evolve. Moreover, and much to the chagrin provincial policy makers, provincial governments exert minimal short-run control over demographics. Thus, there are no obvious levers for a provincial government to pull in order to extract an unfair share of the pie.

Health care is the single largest expenditure item in nearly every Canadian province, and Ottawa's contribution to that spending under the Canada Health Transfer is vital.

Adjusting the level of federal support for health care to match provincial demographic reality is a cautious, attainable step towards all provinces providing health care at national standards. Its alternative, dividing money among the provinces in proportion to the number of people residing in that province, has a ring of naïve fairness.

However, per capita allocation conforms to the principle that all Canadians have equal access to money from Ottawa, not that they have equal access to health care.

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