The sky is not falling

Public-sector and health-care spending is under control in Canada

Public Services Foundation of Canada

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Introduction

Canada is a dynamic, prosperous country. Our population, in just the last 30 years, has increased by 9.6 million (up 38.9 per cent), and we now can boast of 34.3 million residents.

In the last decade alone — between January 1, 2001, and January 1, 2011 — Canada gained 3.5 million people. Approximately one-third of that number came from natural increase (the net of births minus deaths), with the remaining two-thirds the net result of international immigration.

Our national economy, too, has shown impressive strength over the last three decades. In 1981, Canada's nominal gross domestic product was $360.5 billion. Last year, in 2010, the comparable number, as estimated by Statistics Canada, was $1,624.6 billion — that is, more than $1.6 trillion.

That latter number put Canada ninth out of 181 countries around the world in a recent ranking by the International Monetary Fund.

We trail only the United States, the People's Republic of China, Japan, Germany, France, the United Kingdom, Brazil and Italy — and are ahead of countries such as India, Russia, Spain, Australia, Mexico, South Korea, the Netherlands, Turkey and Indonesia, as well as more than 160 other nations.

In 2010, Canada's per capita gross domestic product — $1.6 trillion divided by 34.3 million people — was $47,365.

Translated in U.S. dollars, our per capita GDP places Canada 11th in the IMF rankings. (The top five countries are Luxembourg, Norway, Qatar, Switzerland and the United Arab Emirates).

Much, besides our growing population and increasing wealth, has changed for Canadians over the last three decades. In the early 1980s, for example, few households in Canada had a video recorder, a home computer or a microwave oven. Today, almost three-quarters of homes own a VCR, more than four of every five have a computer, and about nine of every 10 have a microwave. Similarly, cell phones and compact disc players were almost unknown 30 years ago. Now, according to Statistics Canada, 77.2 per cent of households have at least one of the former and 79.1 per cent one of the latter — plus 87.5 per cent own a DVD player.

Surprisingly, one thing in Canada has not grown very much at all over the last three decades — our public sector.

While it is true that government expenditures in real terms have increased in concert with our burgeoning economy (and expanding population), the rate of growth for public spending has been considerably slower. Indeed, when the size and cost of Canada's government is measured as a proportion of our national economy, it becomes evident that public expenditures actually have declined since the early 1980s.

Consider that over the five-year period between 1980/81 and 1984/85, "general government outlays" — the combined expenditures of the federal, provincial and local governments — represented an average of 46.6 per cent of Canada's gross domestic product. During a similar five-year period from 2005/06 to 2009/10, however, the comparable number was only 42.0 per cent.

Much of the reduction occurred at the federal level, but government expenditures also fell across Canada's provinces.

During the first five years of the 1980s (fiscal years 1980/81 to 1984/85), the average of annual spending by provincial and territorial governments was 19.7 per cent of gross domestic product.

Over the last five years (fiscal years 2005/06 to 2009/10), however, the average of provincial-territorial outlays dropped to just 18.5 per cent of GDP.

The empirical data clearly refutes the well-publicized notion — propagated by certain politicians, think-tanks and lobbying organizations — that public spending in Canada is out-of-control.

Government expenditures, in fact, have been in a marked decline for nearly two decades, going back to the early 1990s.

Provincial health care outlays come in for special criticism from "the sky is falling" crowd. Again, however, a close examination of available data refutes the suggestion that public health expenditures are skyrocketing heavenward.

Indeed, over the last three decades, private health care spending — by Canadian families and individuals — has grown at a far faster pace than have government health expenditures.

In 1981, provincial government spending on health care represented 5.2 per cent of GDP. Almost three decades later, in 2010, that figure stood at 7.7 per cent.

Yet over the same period, private health care outlays nearly doubled, rising from 1.8 per cent to 3.5 per cent of GDP.

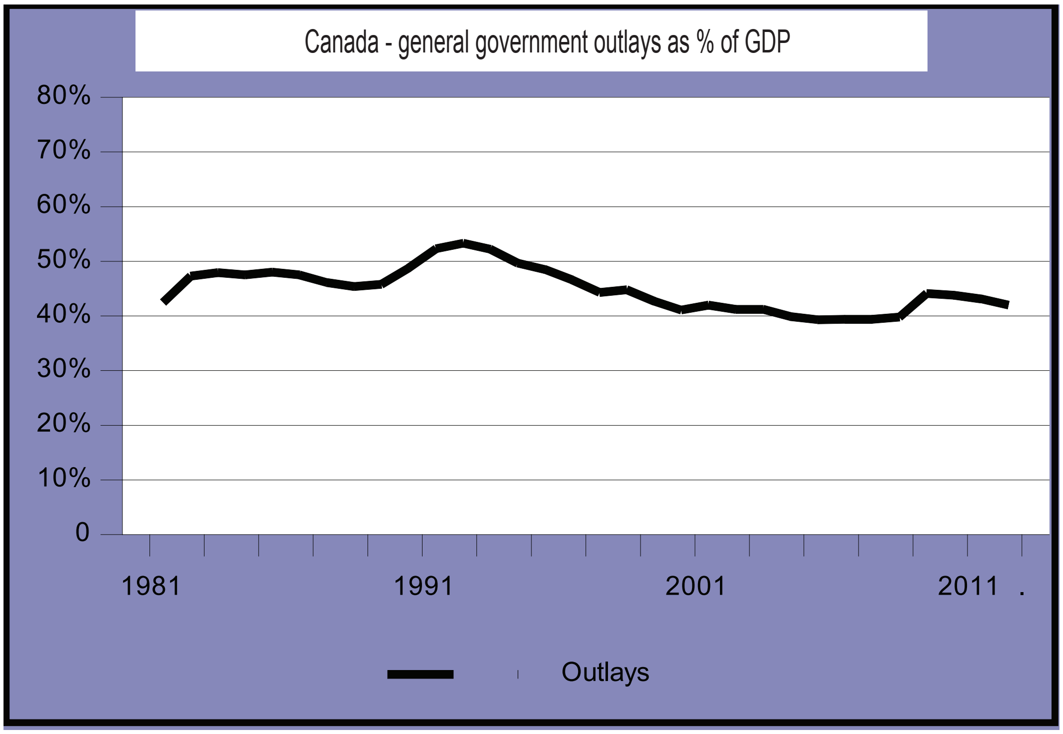
Simply, while it is true that health spending in Canada has been on the rise, it also is evident that Canadians — individually and collectively — want more and better health care.

Lastly, while Canada's population has shown robust growth in recent decades, public sector employment in the provinces has not kept pace.

Between 1992 and 2010, when Canada added nearly six million new residents, the number of general government employees directly working for the provinces and territories actually fell from 378,000 to 358,000.

At the same time, the number of workers at provincially-owned government business enterprises — also known as Crown corporations — dropped from 147,000 to 145,600.

Canada, it is clear, is a fast-growing and increasingly wealthy nation. Our public sector, dedicated to making the country, provinces and territories prosperous and secure, has played a vital role in our shared success.



Public Spending in the 20th Century

THIRTY YEARS AGO, in 1981, the combined expenditures of all three levels of government in Canada — federal, provincial and local — represented 42.5 per cent of our nation's nominal gross domestic product.

That level represented a four-fold increase in the size and cost of the public sector since Confederation, when laissez-faire was the dominant political and economic philosophy in the western, industrialized world.

According to calculations by modern economists, public sector expenditures in Europe and North America in 1870 averaged just 10.8 per cent of GDP.

The largest proportion of state spending, about one-third, was allocated to the military, with the remainder earmarked for education, law enforcement, public works and administration.

As late as 1913, just before the First World War, public outlays represented only an estimated 13.1% of GDP.

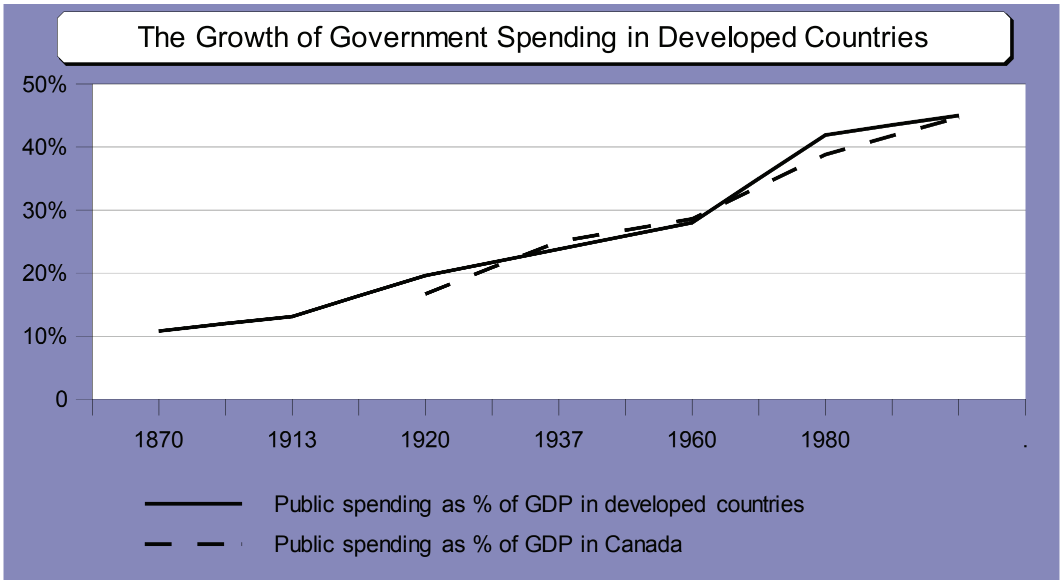
But political and social attitudes toward the state and government were changing. Health insurance was introduced in Germany in 1883, and other countries soon followed with their own plans. Many also brought in limited old age pensions.

Public spending in developed nations rose sharply during the First World War (1914-1918), and stood at an average of 19.6 per cent of gross domestic product in 1920. By 1937, near the end of the Great Depression and on the eve of the Second World War (1939-1945), that number had climbed to 23.8 per cent. Government expenditures rose even higher after the second global conflict, in large part because of the writings of John Maynard Keynes, a British intellectual and economist.

In 1926, Keynes published a provocative pamphlet, *The End of Laissez-Faire*, in which he claimed that "The important thing for government is not to do things that individuals are doing already, but to do those things which at present are not done at all".

A decade later, in 1936, he authored *The General Theory of Employment, Interest and Money*, which had an enormous and long-lasting impact on economists, politicians and policy-makers.

Most people hitherto had believed that the economy was self-correcting. That is, economic forces were constantly trying to balance — to find equilibrium between — supply and demand. The problems of too much (or too little) demand or too much (or too little) supply, it was thought, would correct themselves over time, and economic prosperity restored.



But Keynes observed that equilibrium between supply and demand might be achieved even when economies were operating well below capacity. Countries then might find themselves stuck in a recession or worse for long periods of time. What then? What if market forces alone were unable to restore the economy to full- or near-full capacity?

Keynes' answer: only the state had the resources to ensure that the economy served society's general interests. A key task for politicians and policy-makers, therefore, was to ensure a healthy demand for goods and services.

Every government in the western, industrialized world adopted activist policies in the post-war era. Not atypical was the United States which, in 1946, passed an Employment Act that declared Washington, D.C. had a duty to promote "maximum employment, production, and purchasing power".

Many countries enacted new programs to ensure that people who might be without regular incomes nonetheless had "purchasing power". Those without work received unemployment insurance benefits, retirees got improved pensions, and stay-at-home moms had baby bonuses and mothers' allowances.

A veritable explosion in public spending occurred in the 1960s and 1970s, and by 1980, the average developed country allocated 41.9 per cent of its GDP to the public sector.

In the decades that followed, government spending continued to rise but at a slower pace. By 1996, public outlays in developed countries represented an average of 45.0 per cent of GDP.

Canada's public sector, almost in lock-step with the rest of the western world, expanded over the course of the 20th century.

In 1961, general government outlays in Canada were 30.6 per cent of nominal gross domestic product. Two decades later, in 1981 (as mentioned earlier), they reached 42.5 per cent.

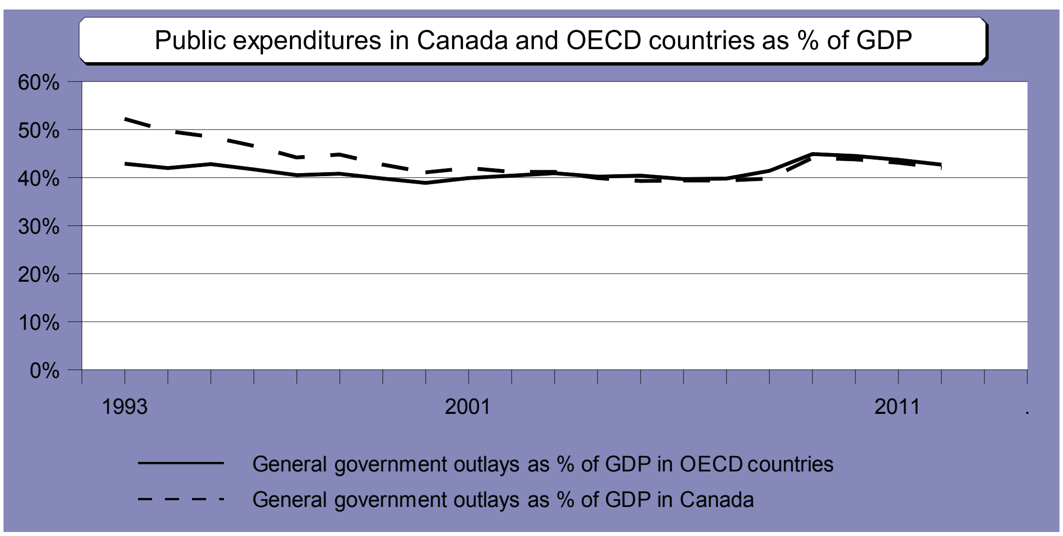
Expansion continued until 1992, when Canada's public outlays reached a peak of 53.3 per cent.

They then reversed course and began a rapid descent through the rest of the decade. By 2000, expenditures by all three levels of government in Canada were down to 41.1 per cent, and in 2004, they fell below 40.0 per cent for the first time in three decades.

Over the five years from 2004 to 2008, general government spending in Canada represented an average of less than 39.6 per cent of GDP — a level comparable to the early 1970s.

In 2009, as a consequence of the financial and economic recession — and with Canada's economy registering a sharp decline — government expenditures as a proportion of GDP rose to 44.1 per cent. The condition is expected to be temporary, however.

According to a recent estimate by the Organisation for Economic Coordination and Development (OECD), Canada's general government spending should decline each year through 2012, when it will fall to an even 42.0 per cent of nominal gross domestic product — a level below the average for OECD countries.



Canada's General Government Outlays, Receipts and Debt: A Comparison with OECD Countries

CANADA'S FISCAL RECORD over the last century and longer, as mentioned earlier, has been remarkably similar to the fiscal record of most other countries in the developed world.

Beginning from the second-half of the 19th century, and through to the last decade of the 20th, general government spending in Canada rose steadily.

Until the early 1990s, that is. At that point public expenditures reversed course and began a long, slow decline. The global financial and economic recession recently brought a sharp, upward rise in government outlays, but that move is expected (by both the OECD and Canada's federal government) to be temporary.

Yet, this description does not tell the whole story, because over the last decade-and-a-half something quite interesting and unique occurred in Canada. As a result, our country's general finances today are considerably healthier than those of many other nations in the western, industrialized world.

Indeed, a review of the empirical evidence proves that claims of "sky-rocketing government spending" and "a bloated public sector" are manifestly false.

Let us go back briefly to the 1960s, when public expenditures were beginning their upward move in Canada and elsewhere around the world.

In that decade, general government outlays represented an average of 31.8 per cent of Canada's nominal gross domestic product, and receipts were an average of 30.9 per cent. The annual, average shortfall was 0.9 per cent of GDP.

In the 1970s and 1980s, government spending rose to a yearly average of 39.4 per cent and 46.7 per cent of GDP, respectively. Revenues lagged well behind at 37.1 per cent and 40.5 per cent, leaving annual, average deficits of 2.3 per cent and 6.2 per cent of gross domestic product.

As a result of those seemingly never-ending, and ever-growing, shortfalls, Canada's net financial liabilities — that is, our public debt — exploded from just 5.7 per cent of GDP in 1975, to 50.5 per cent in 1991.

One year later, in 1992, general government spending in Canada peaked at 53.3 per cent of GDP. That was well above general government revenues of only 44.2 per cent, and the result that year was a deficit equal to 9.1 per cent of gross domestic product.

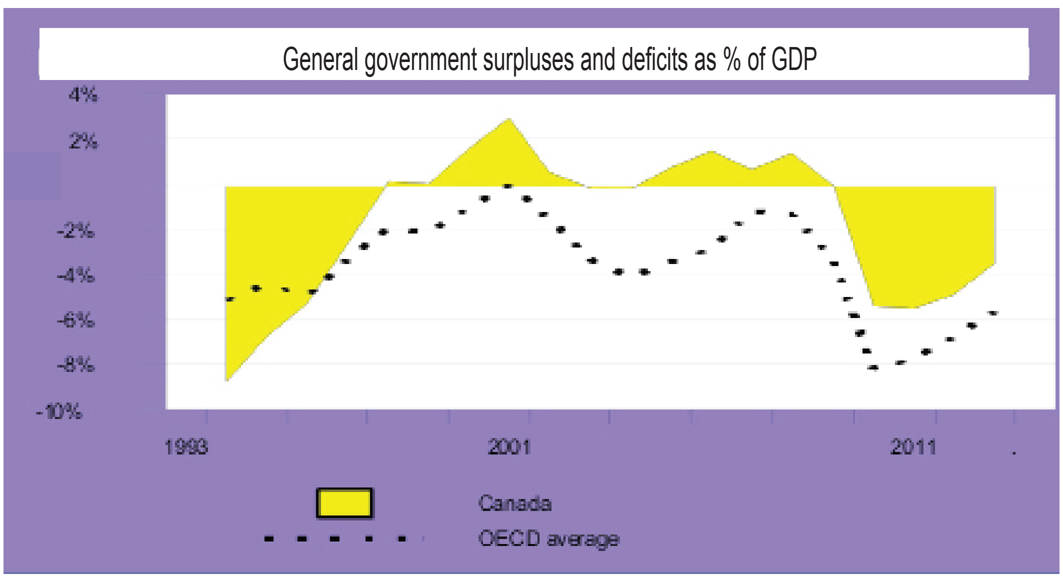
Over the last decade and a half, however, Canada's general government outlays entered a lengthy decline. Importantly, government receipts remained above 40.0 per cent of GDP, and in 1997 appeared the first in a series of fiscal surpluses.

The sharp reduction in general government outlays — from above 50 per cent of GDP in 1991, 1992 and 1993, to just 41.1 per cent in 2000 — brought our country's public spending in line with (albeit slightly higher than) other OECD nations.

However, Canada's general government receipts have remained more robust than those of most other developed countries.

From 1993 to 2000, Canada's general government revenues represented an annual average of 43.9 per cent of gross domestic product, compared to an average of 38.3 per cent across all OECD countries.

Both numbers declined in the first decade of the 21st century, yet Canada's receipts continued higher, 40.5 per cent of GDP, than the average for OECD nations, at 37.5 per cent.



(Revenues as a proportion of GDP in OECD countries in 2010 ranged from 30.4 per cent and 30.9 per cent in Australia and Korea, respectively, to 55.3 per cent in Denmark and 56.5 per cent in Norway.)

For two reasons, our country's fiscal performance over the last decade or so has been unique among OECD countries.

First, our declining general government outlays, combined with consistently strong revenues, allowed Canada to record an impressive series of fiscal surpluses, even as most other OECD countries continued to have shortfalls.

Between 1997 and 2008, Canada had 10 surplus or balanced budgets — and with deficits of just 0.1 per cent of GDP in the other two years.

By comparison, OECD nations in aggregate over the same period had just a single year where revenues matched outlays.

Second, Canada's string of fiscal surpluses resulted in a dramatic reduction in our country's general government debt. After peaking at 70.7 per cent of GDP in 1995, Canada's net financial liabilities steadily fell until hitting a nadir of 22.4 per cent in 2008.

That latter number was about half of the average debt for OECD countries, which in 2008 stood at 43.5 per cent of GDP.

(Canada's net financial liabilities dropped below those of Japan in 2000; beneath those of the United States, Germany and France in 2003; and under the United Kingdom in 2006.)

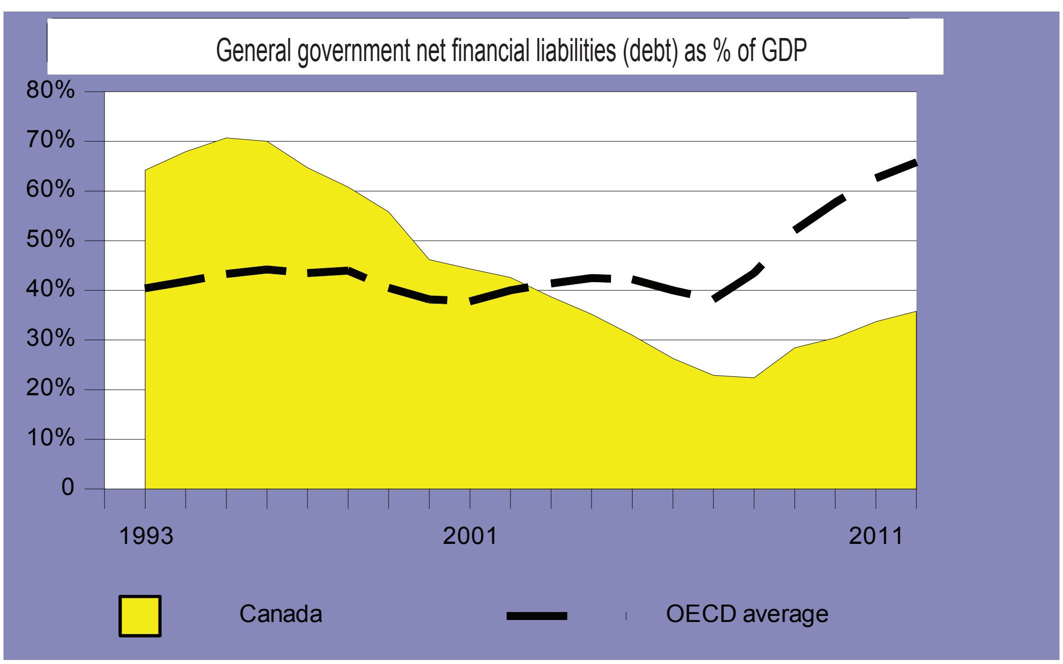
In 2011, after the recent global recession, Canada's net financial liabilities are expected to equal 33.7 per cent GDP — still about half the OECD average of 62.6 per cent.

(Comparable numbers for other leading OECD nations are: Germany, 50.2 per cent; France, 60.2 per cent; the United Kingdom, 62.4 per cent; the United States, 74.8 per cent; Greece, 124.8 per cent; and Japan, 127.8 per cent.)

With much reduced annual interest charges to cover our public debt, Canada over the last seven years, has been able to cut general government outlays below the average for all OECD countries.

In 2004, OECD expenditures represented 40.2 per cent of GDP, while the comparable number for Canada was just 39.9 per cent.

Even in the aftermath of the global financial and economic recession, when general government outlays rose as a proportion of gross domestic product, Canada's public expenditures remained below those across the OECD.



By 2012, average spending by all OECD countries is expected to be 42.7 per cent of GDP. The comparable number forecast for Canada is 42.0 per cent.

The story is simple, yet dramatic. Over the last decade or so, expenditures by Canada's three levels of government have fallen from above 50 per cent of GDP, to around 40 per cent — a level below the average for all OECD countries.

Our public debt, moreover, is half of the OECD average.

Clearly, concerns about Canada's "sky-rocketing government spending" and "a bloated public sector" are not borne out by the facts.

TABLE 03-01 — General government net financial liabilities as % of nominal GDP

	Canada	USA	UK	Germany	France	Greece	Japan	OECD
1993	64.2	54.9	17.4	18.3	26.8	n/a	17.1	40.5
1994	67.9	54.4	19.7	19.1	29.7	n/a	19.6	41.8
1995	70.7	53.8	26.3	29.7	37.5	81.0	23.8	43.3
1996	70.0	51.9	27.9	32.7	41.8	81.4	29.2	44.2
1997	64.7	48.8	30.6	32.4	42.3	76.8	34.8	43.5
1998	60.8	44.9	32.6	36.2	40.5	72.6	46.2	44.0
1999	55.8	40.2	29.0	34.7	33.5	70.6	53.8	40.5
2000	46.2	35.3	26.8	33.9	35.1	89.0	60.4	38.2
2001	44.3	34.6	23.2	36.2	36.7	93.2	66.3	37.8
2002	42.6	37.2	23.7	40.3	41.8	95.1	72.6	40.0
2003	38.7	40.5	23.9	43.1	44.2	87.6	76.5	41.4
2004	35.2	42.1	25.9	47.2	45.3	87.7	82.7	42.5
2005	31.0	42.5	27.1	49.3	43.2	91.8	84.6	42.2
2006	26.3	41.7	27.5	47.4	37.2	86.1	84.3	40.0
2007	22.9	42.6	28.5	42.2	34.8	80.4	81.5	38.2
2008	22.4	48.2	33.0	43.9	42.7	88.9	96.5	43.5
2009	28.4	59.8	44.0	47.9	49.3	100.5	110.0	52.1
2010	30.4	67.3	56.3	50.1	56.6	114.2	116.3	57.7
2011	33.7	74.8	62.4	50.2	60.2	124.8	127.8	62.6
2012	35.8	80.7	67.1	49.6	62.8	129.7	133.9	65.8

(SOURCE: OECD Economic Outlook No. 89 Annex Tables.)

Federal Government Expenditures and Revenues

CANADA'S MUCH REDUCED, general government outlays (as a proportion of the country's economy) reflect spending reductions both by the federal government in Ottawa, and by provincial and territorial administrations across our nation.

Nearly three decades ago, in fiscal 1983/84, federal government expenditures totaled $97.6 billion — or 23.7 per cent of Canada's gross domestic product.

By comparison, in fiscal 2008/09 — and with the addition of almost nine million people to our country's population — Ottawa's outlays added up to $238.8 billion, or just 14.9 per cent of our GDP.

Simply, despite more than doubling in real terms — rising from $97.6 billion to $238.8 billion — federal government spending as a proportion of the economy shrank by more than one-third — from 23.7 per cent to 14.9 per cent.

In 2009, Ottawa's expenditures increased in real and percentage terms as a result of the global financial and economic recession, yet as a proportion of gross domestic product, remained well below historic levels.

Federal government outlays in 2009/10, for example, rose to $274.2 billion, or 18.0 per cent of GDP, which was well below the 21.9 to 24.3 per cent levels recorded in the 1980s.

Three areas of Ottawa's spending reductions deserve special notice.

Interest charges on the federal debt represented the biggest reduction in outlays since the early 1990s. In 1983/84, public debt charges added up to $20.4 billion, or 5.0 per cent of GDP. Seven years later, interest payments hit $45.0 billion, and a peak of 6.6 per cent of gross domestic product.

By 2009/10, however, when interest payments totaled $29.4 billion, that outlay represented a mere 1.9 per cent of GDP — the lowest level since the 1960s.

The second notable area of Ottawa's spending cuts was in transfers to persons (which include old age security payments, family allowances, children's benefits and employment insurance benefits).

In the 1980s, those transfers — between $22.5 billion and $30.0 billion annually — were in excess of five per cent of the country's gross domestic product. By the mid-

2000s, those transfers — $51.3 billion to $61.5 billion per annum — had fallen to just 3.8 per cent of GDP.

Transfers to persons rose to 4.5 per cent of GDP in 2009/10 as a result of the global recession, but they will drop to 3.9 per cent by 2015/16 according to the 2011 federal budget.

Lastly, annual cash transfers to the provinces ranged between $17.1 billion and $20.5 billion in the early 1980s — or about 3.9 per cent of GDP. Those transfers were chopped by about one-third in the mid-to-late 1990s, when Ottawa unilaterally replaced existing programs with the Canada Health and Social Transfer.

Provincial transfers reached their nadir in 1997/98, falling to just $20.5 billion or 2.3 per cent of gross domestic product. They since have been restored somewhat, and over the last five years have averaged 3.1 per cent of GDP.

Provincial and Territorial Government Finances

WHILE NOT AS DRAMATIC as the decline in spending by Ottawa, provincial and territorial outlays also have fallen since the early 1990s as a proportion of Canada's nominal gross domestic product.

Three decades ago, in 1980/81, combined spending by Canada's provinces and territories totaled $58.4 billion. The average level of provincial expenditure during the first-half of the 1980s (1980/81 to 1984/85) was 19.7 per cent of GDP.

By the early 1990s, when Ottawa's annual spending reached its apex, provincial outlays also had climbed to record heights. The peak was reached in 1992/93, when combined expenditures by the provinces hit 22.2 per cent of GDP ($155.2 billion).

Within two years, however, provincial expenditures had dropped below 20 per cent of Canada's nominal gross domestic product, and they stayed below that level through the next 14 years. The nadir was recorded in 2000/01, when combined outlays of $189.1 billion represented only 17.6 per cent of GDP.

In 2009/10, when Canada felt the full impact of the global financial and economic recession, provincial and territorial spending again rose to slightly exceed 20 per cent of GDP, as outlays climbed to $310.2 billion.

Still, over the last five fiscal years of the decade (2005/06 to 2009/10), total provincial-territorial spending averaged just 18.5 per cent of gross domestic product. That was 1.2 percentage points below the level recorded 30 years ago, in the first-half of the 1980s.

As with Ottawa's finances, provincial and territorial revenues have strengthened over the last three decades. Between 1980/81 and 1984/85, total receipts for the provinces represented an average of 18.0 per cent of Canada's GDP. The comparable number for the five-year period between 2005/06 and 2009/10 was 18.7 per cent.

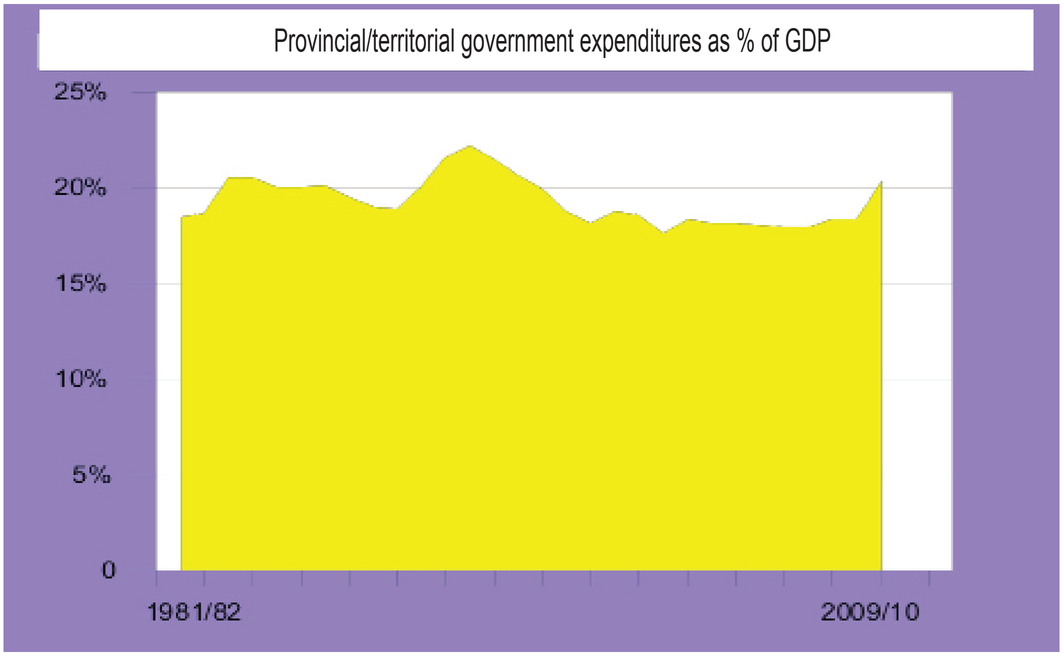
Twice — in 2006/07 and 2007/08 — provincial revenues reached historic highs of 19.1 per cent of GDP.

Much of the increase in provincial government incomes was from rising own-source revenues. From the early 1980s to the late 2000s, own-source receipts in the provinces climbed from an average of 13.8 per cent of GDP, to 15.1 per cent.

Strong own-source revenues helped to offset the decline in federal cash transfers. In the mid-1990s, Ottawa's transfer payments suddenly dropped — after adoption of the

CHST — from about four per cent of GDP annually, to under three per cent. The nadir was reached in 1997/98, at 2.7 per cent.

Cash transfers to the provinces have since strengthened slightly — to an average of about 3.5 per cent — but still remain below 1980s' levels.



And, as occurred with Canada's federal government finances in the mid-1990s, albeit a few years later, the provinces also replaced their long string of deficits with surpluses. Together, provincial governments recorded 19 consecutive fiscal shortfalls between 1980/81 and 1999/2000.

Over the next nine years, however, as a consequence of rising revenues and reduced expenditures, the provinces recorded seven surpluses.

A small shortfall occurred in 2008/09 (about 0.1 per cent of GDP), and then a larger one in 2009/10 (1.8 per cent), but both were well below deficit levels seen in the 1980s and 1990s.

Moreover, as Ottawa's finances are expected to improve over the next several years, so too should the provincial and territorial governments see a return to fiscal surpluses.

Overall, the fiscal picture for Canada's provinces and territories is much improved from that of the 1980s and 1990s. One aspect remains of concern, however: the province's accumulated debt.

In the early 1980s, the combined debt of Canada's provincial governments represented 6.0 per cent of the country's gross domestic product. A decade later, in 1990/91, that figure had more than tripled to 19.3 per cent.

The apex was reached in 1998/99 and 1999/2000, at 29.8 per cent of GDP. Since then, thanks to the appearance of fiscal surpluses, the combined provincial government debt has dropped to the 20-to-25 per cent range.

VARIATIONS IN PROVINCIAL EXPENDITURES AND DEBT

There is considerable variation between the levels of expenditure and debt in Canada's provincial governments – and those differences appear to be growing over time.

In the early 1980s, for example, British Columbia and Newfoundland and Labrador each spent about $2,500 annually per capita on provincial programs. But by 2009/10, B.C. was near the bottom of the pack at just $8,300, while suddenly oil-rich Newfoundland had skyrocketed to first place with per capita program outlays of $12,600.

In terms of per capita program outlays as a proportion of individual provincial economies, energy-powerhouse Alberta – despite being fourth highest in terms of actual per capita expenditures – was at the bottom with spending of just 14.7 per cent of gross domestic product.

Prince Edward Island, second highest in terms of annual expenditures per capita, was in first place with program outlays equal to 31.1 per cent of provincial GDP.

As mentioned elsewhere, there has been a noticeable increase in provincial debt over the last three decades. Provinces in the Prairies, Central Canada and B.C. have lower debt as a proportion of their economies than do those in the Atlantic region.

Table 05-01
Provincial program expenses per capita

Provinces	1981/82	1991/92	2001/02	2009/10
British Columbia	$2,585	$4,894	$6,850	$8,324
Alberta	3,774	5,806	6,563	9,896
Saskatchewan	2,543	4,378	5,720	9,347
Manitoba	2,238	4,307	5,563	9,915
Ontario	2,027	4,552	5,178	8,139
Quebec	2,840	4,825	5,663	7,866
New Brunswick	2,602	4,944	5,896	9,565
Nova Scotia	2,536	4,152	4,885	8,568
Prince Edward Island	2,582	5,078	6,410	10,470
Newfoundland & Labrador	2,548	4,982	6,842	12,646

(SOURCE: RBC Economics Research, Provincial Fiscal Tables, August 23, 2011.)

Table 05-02
Program expenses as % of GDP

Provinces	1981/82	1991/92	2001/02	2009/10
British Columbia	16.3	20.2	20.9	19.4
Alberta	16.2	20.6	13.3	14.7
Saskatchewan	16.8	20.5	17.3	17.0
Manitoba	17.0	19.9	18.2	23.7
Ontario	13.6	16.8	13.6	18.4
Quebec	23.1	22.0	18.1	20.3
New Brunswick	29.0	27.0	21.4	26.1
Nova Scotia	27.2	21.5	17.6	23.5
Prince Edward Island	29.9	29.4	25.5	31.1
Newfoundland & Labrador	28.4	30.1	25.2	25.7

(SOURCE: RBC Economics Research, Provincial Fiscal Tables, August 23, 2011.)

Table 05-03
Provincial debt (surplus) as % of GDP

Provinces	1981/82	1991/92	2001/02	2009/10
British Columbia	(3.1)	10.8	18.5	14.7
Alberta	(15.5)	10.9	(3.3)	(9.6)
Saskatchewan	(7.4)	28.0	21.2	6.4
Manitoba	10.5	21.7	28.4	23.1
Ontario	10.5	17.4	29.1	33.5
Quebec	15.6	27.0	40.1	49.4
New Brunswick	16.6	26.4	32.7	30.8
Nova Scotia	17.0	30.7	46.9	38.1
Prince Edward Island	9.7	11.9	30.7	33.3
Newfoundland & Labrador	39.6	40.9	63.0	32.9

(SOURCE: RBC Economics Research, Provincial Fiscal Tables, August 23, 2011.)

Public And Private Health Care Spending by Canada's Provinces

HEALTH CARE SPENDING in Canada is rising in concert with our growing population and burgeoning economy. But are provincial government health care expenditures, as some critics allege, sky-rocketing out-of-control? The empirical evidence strongly indicates that the answer is, no.

Indeed, here is something never mentioned by opponents of publicly-funded health services: private spending on health care is growing at a faster rate than public sector outlays.

In the 1980s, private expenditures for health services represented an average of 24.6 per cent of all health spending in Canada. By the first decade of the 21st century, that number had jumped to 29.9 per cent. (Conversely, public outlays for health fell from 74.4 per cent of total expenditures, to about 70 per cent.)

At seven per cent of GDP accounted for by public spending, Canada ranks 11th among the OECD countries. Interestingly, the public sector health care percentage in France – often cited as an example of private delivery to be emulated in Canada – is actually substantially higher than Canada, and is the highest in the OECD, at 8.7%.

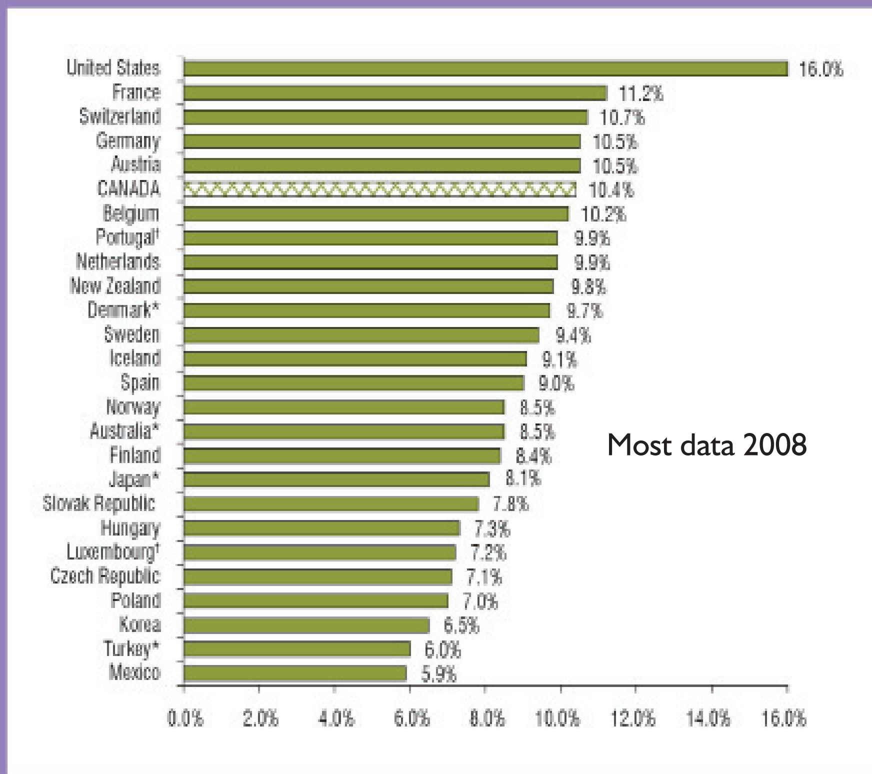
Three decades ago, in 1981, health care spending in Canada totaled $26.3 billion. Of that amount, the public sector expended $19.9 billion, and individual Canadians, $6.3 billion.

Last year, in 2010, health care expenditures added up to $191.6 billion. The public sector was responsible for $135.1 billion of those outlays, while private individuals spent $56.6 billion.

Yet, even as total health care expenditures climb higher, are they growing too fast? Do they consume too much of Canada's economic resources, or of overall public sector budgets? Again, the empirical evidence indicates that the answer is, no.

As a proportion of Canada's nominal gross domestic product, total health expenditures (public and private combined) edged upward from an average of 8.3 per cent in the 1980s, to 9.3 per cent in the 1990s, and to 10.4 per cent in the first decade of the 21st century.

The data shows that Canada is not an outlier relative to other wealthy nations when it comes to total health expenditures. Indeed, the share of our GDP devoted to health care is within the range of other nations often compared to ourselves, and substantially below that of the United States.

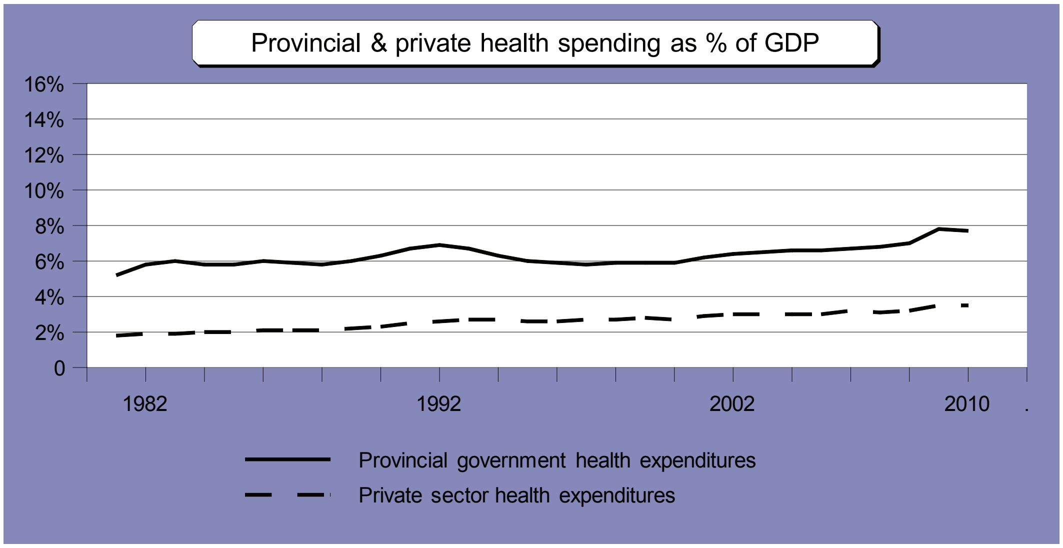


Notes * Data for 2007. † Data for 2006.
Source Organisation for Economic Co-operation and Development, OECD Health Data 2010 (June edition) (Paris, France: OECD, 2010).

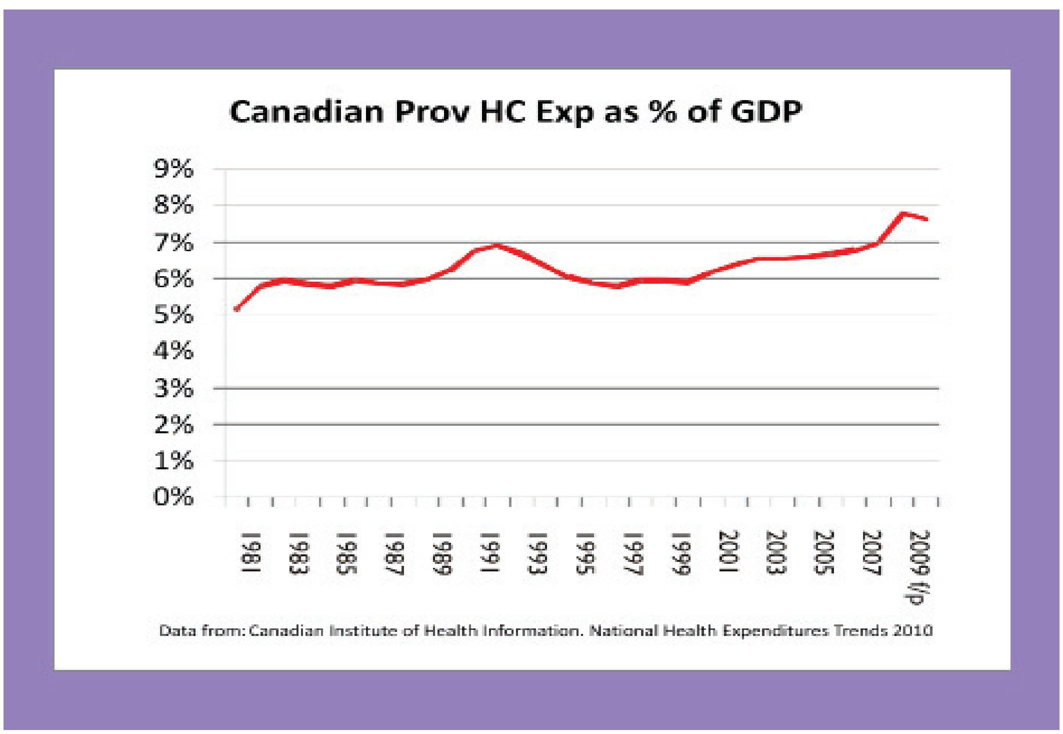
Of those totals, the proportion attributed to private individuals grew from an average of 2.0 per cent and 2.7 per cent of GDP in the 1980s and 1990s, respectively, to nearly 3.2 per cent over the last decade.

The proportion expended by provincial governments over those same time periods grew at a much-slower pace, from an average of 5.9 per cent to 6.2 per cent of GDP, and then to 6.8 per cent.

The most important contributor to health care cost increases has been prescription drugs which increased their share of public spending from 2% to 9% since 1975 and by themselves account for one-quarter of the increase in health costs as a share of GDP.



The graph below shows total provincial government health expenditures as a share of GDP. It shows that provincial government health expenditures have been remarkably stable as a share of GDP in the last 25 years, showing an economic cycle peak-to-peak increase from just under 6% in 1983, to just under 7% in 2008. Provincial health spending as a share of GDP spiked in 2009 because the GDP plummeted during the global economic crisis. In 2010, as the economy slowly began to grow again, health began to decrease its share of GDP.



The message from the data on health care spending in Canada could not be clearer. Health care costs are rising modestly as our population ages and as technological and pharmaceutical innovations lead to more expensive interventions. But there is no Medicare sustainability crisis.

Total health care costs, and public spending in particular, have been remarkably stable over the last 25 years as a share of GDP and fall comfortably in the mainstream among other wealthy nations. To the extent that total and public health spending has increased, the single biggest driver of these cost increases has been prescription drugs.

There is one other myth that needs to be debunked. The oft-cited increase in health care spending as a share of total government spending does not reflect a large increase in health care spending. Instead, it reflects decisions by governments to cut taxes and other program spending. The cuts in government fiscal capacity since the early 1990s – at all three levels of government – amount to 6% of GDP or a staggering $90 billion in lost government revenue per year. Clearly, if governments had made different choices over the last 20 years, there would be more than enough money to actually increase health spending more and expand the current public system to include a national home care and prescription drug program.

It is also clear that whatever amount of cash allocated to health care by provincial and federal governments, it is not as much as individual Canadians wish to see spent for themselves, for their families and loved ones. At the end of the day, Medicare belongs to Canadians, not governments. It is paid for with tax dollars and it is therefore up to Canadians to decide what they can or cannot afford. Canadians have made it clear that Medicare is the most cherished social program in Canada and they want the system strengthened and expanded; they want to see more investment, not less.

The Provincial Public Service Is Shrinking

CANADA'S PUBLIC SECTOR in 2010 had 3.6 million employees, which was 21.2 per cent of all Canadians with jobs. By comparison, in 1992, that latter number had been 24.1 per cent.

It is evident that our country's broad public sector — which includes federal, provincial and local government employees, plus those working at schools, universities and government business enterprises (Crown corporations) — is smaller today than two decades ago.

To be sure, the number of people working in the public sector has grown in absolute terms since the early 1990s — there were 3.1 million public sector employees in 1992 — but the rate of growth has been much lower than that of the private sector.

And in some areas of the public sector, notably at the provincial level, there actually has been a real decline in jobs.

In 1992, there were 378,000 people working for provincial and territorial "general governments". By 2010, that number had dropped to 358,000. Over that same time period, Canada's population grew from 28.2 million, to 33.9 million.

As a proportion of working Canadians, the number of public servants employed by provincial government fell from 3.0 per cent in 1992, to 2.1 per cent in 2010.

Similarly, the number of Canadians working at provincially-owned Crown corporations stood at 147,000 in 1992, but was just 145,600 in 2010.

There has been one surprising area of public sector employment growth in the last three years, and that is at local governments. In 2007, the number of local-government workers was counted at 395,000; by 2010, that number had leaped up to almost 606,000.

Overall, however, the last two decades have seen a noticeable decline in public sector employees as a proportion of working Canadians.

CONCLUSION

HOME TO MORE than 34 million people, Canada each year attracts hundreds of thousands of newcomers from around the world. We are a fast growing and increasingly prosperous nation.

One reason Canada is so attractive to new residents is the vital public investments we have made in the past, and continue to make year after year. We enjoy world-class health care services and education programs, provide an enviable array of social services, and have built vital transportation and economic infrastructure.

As Canada has grown, so too has our public sector. In the last two decades, however, public investments and expenditures have become an increasingly smaller portion of our national economy.

Empirical data clearly reveals as false the popular argument that public spending is out of control.

In the early 1990s, “general government outlays” represented an average of 46.6 per cent of the country’s gross domestic product. Over the last five years, that number has fallen to just 42.0 per cent.

Health care spending is slowly rising across the country, but at a much reduced rate in the public sector when compared to expenditures by private individuals and families.

And public sector employment, when measured as a proportion of all Canadian workers, is considerably lower today than two decades ago.

Canada is a fast growing and increasingly wealthy nation. Our public sector played a vital role in our nation’s success, and will continue to do so in the future.

NOTES

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