

# CUPE ECONOMIC

BRIEF

## How rising drug costs swallowed my health care *and gobbled up the economy, too*

The Fraser Institute's third annual report on the financial sustainability of provincial health insurance just found, to no-one's surprise, that "health care financing, as it is currently structured in Canada, is not financially sustainable" and that reform is needed to increase privatization of the system.

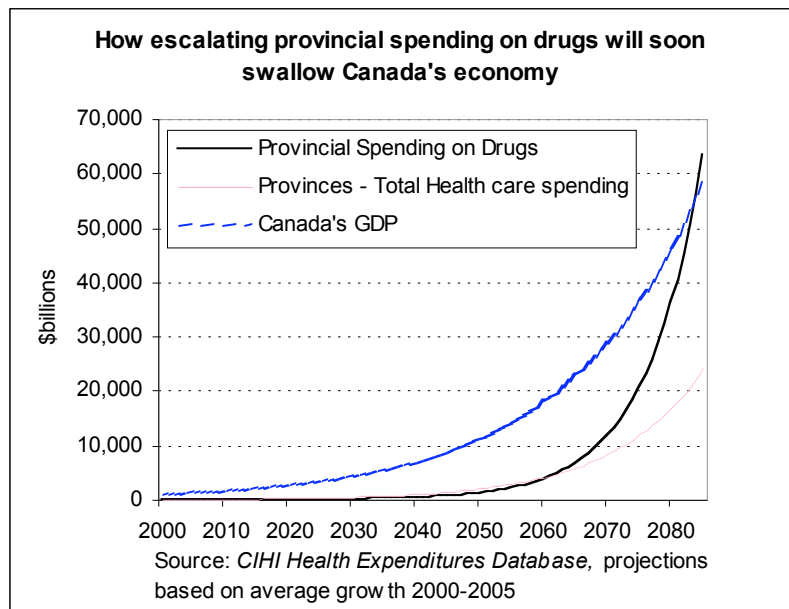
But their approach is highly faulty. It extrapolates 60 years ahead based on the recent averages and it doesn't confront the fastest growing component of health care: the rising costs of drugs.

The study simply took the most recent five-year annual average for provincial health care spending for each province and projected that rate of growth 60 years into the future. It then measured "sustainability" by comparing this to similar projections for provincial revenues and GDP. They claim that health care spending is on track to bankrupt all provinces within 60 years.

There is no consideration of these trends in context, nor is there any real analysis of what has caused the increases in health care spending.

There is no doubt that provincial health care costs have increased at a significant pace in the past five and ten years: increasing by an average of about 7% in the past ten years<sup>1</sup>. If these rates of increase stay higher than revenue growth or GDP growth over the long-term, then they are of course unsustainable. But the last five to ten years have not been typical.

After years of neglect, federal and provincial governments have re-invested substantially in health care over the past decade. In particular, the 2004 Health Care Accords helped to support additional provincial health spending. But this major accord, designed to "fix Medicare for a generation", is not mentioned once in the report.



<sup>1</sup> Numbers from Statistics Canada's *Financial Management System* show an average annual increase of 7% from 1996/97 to 2005/6. More detailed numbers from the Canadian Institute for Health Information's *National Health Expenditure Database* show an average annual increase of 6.3% for provincial/territorial government health expenditures from 1995 to 2005.

Worse, their study doesn't even analyze what major factors have caused increases in health care costs over the past five to ten years.

This analysis would have shown that prescription drug costs have grown at by far the fastest rate of all components of provincial health care spending and are gobbling up a growing share of the cost of provincial health care plans. Provincial spending on drugs has increased an annual average rate of 11.9% during the past five years and by 10.3% over the past 10 years. This compares to an annual average increase in total provincial health care spending of 7.2% during the past five years and 6.3% over the past decade<sup>2</sup>.

Using the Fraser Institute's *Paying More, Getting Less* approach, we would find:

- If provincial spending on drugs were to increase at their most recent five-year annual average rate of 11.9% for the next 60 years, they would cost \$6.7 trillion by 2065.
- This would amount to 113% of the provinces' total health care spending in 2065 if it also increased at its most recent five-year annual average rate of 7.2%.
- Provincial spending on drugs would be equal to 29% of Canada's total GDP by 2065, if GDP increased at its most recent five-year average rate 4.8% per year.
- Using these same growth rates to extrapolate over 100 years, provincial spending on drugs would amount to almost 400% of Canada's total GDP by 2105.

This illustrates two things:

1. It is absurd to use atypical five-year growth rates and extrapolate them over the 60 years.
2. The rising cost of prescription drugs is clearly the most unsustainable part of provincial health care spending and needs to be controlled.

CUPE with other health groups has called for the federal government to establish a national Pharmacare program (<http://www.healthcoalition.ca/>). This would control the rising costs of drug spending by establishing a national formulary and controlling the escalating prices that drug companies are charging for their products.

The Fraser Institute report doesn't call for controlling drug costs, no doubt partly because they have had a representative on their board of trustees from U.S.-based drug giant Pfizer, the world's largest pharmaceutical company<sup>3</sup>. Instead, they suggest that spending on pharmaceuticals should be *increased*.

The report also doesn't mention the United States, which follows the privatized prescriptions that the Fraser Institute advocates for Canada. South of the border, health care spending has increased by 8-9% a year.

- Total spending on health care in the United States was equal to \$5,274 per person – 137% higher than in Canada – in 2002 (latest international comparisons from the World Health Organization)<sup>4</sup>
- Government spending on health care in the United States was equivalent to \$2,374 – 52% higher than in Canada. At the same time, their system delivers worse overall health care than Canada's public system does.
- Health care administrative costs in the U.S. are 300% higher than in Canada, owing to their inefficient private insurance system.

<sup>2</sup> Figures from CIHI's *National Health Expenditure Database*, Appendix Table C.4.1.

<sup>3</sup> Catherine Windels, Director of International Affairs at Pfizer, has also served as the Secretary Treasurer for the Fraser Institute's Board of Trustees.

<sup>4</sup> World Health Organization: *World Health Report 2005*, Annex Table 6, pp 200-203.

The future of Canada's health care system needs serious consideration to strengthen public health care and make it sustainable over the long-term. But this report by the Fraser Institute is a shoddy attempt to support their corporate agenda of privatization.

To paraphrase an expression often attributed to Mark Twain: "There are three kinds of lies: lies, damn lies and statistical extrapolations based on short-term trends." Virtually all mutual funds are sold with the disclaimer that "Past performance is not a reliable indicator of future results." This report should have included that disclaimer as well.

*Toby Sanger is an economist with the Canadian Union of Public Employees and doesn't hold any shares in Pfizer. Inc. If he continues to gain weight at the same rate that he has over the past month, he will weigh approximately 132,735 pounds when he is 64 years old – and will weigh more than the Empire State Building if he lives to 91.*