

Implementing ICP Recommendations *Financing The Road To Prosperity*

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The Implementation Challenge

Some major ICP recommendations imply increase in government spend or decrease in revenue:

● **Investment:** rebalance government spending from consumption to investment

– In other words: spend more on education...and less on what?

- Healthcare eviction effect : 43% of program spending in QC, against 32% twenty years ago

● **Motivations:** reinforce incentives to invest, work and save by lowering several harmful taxes

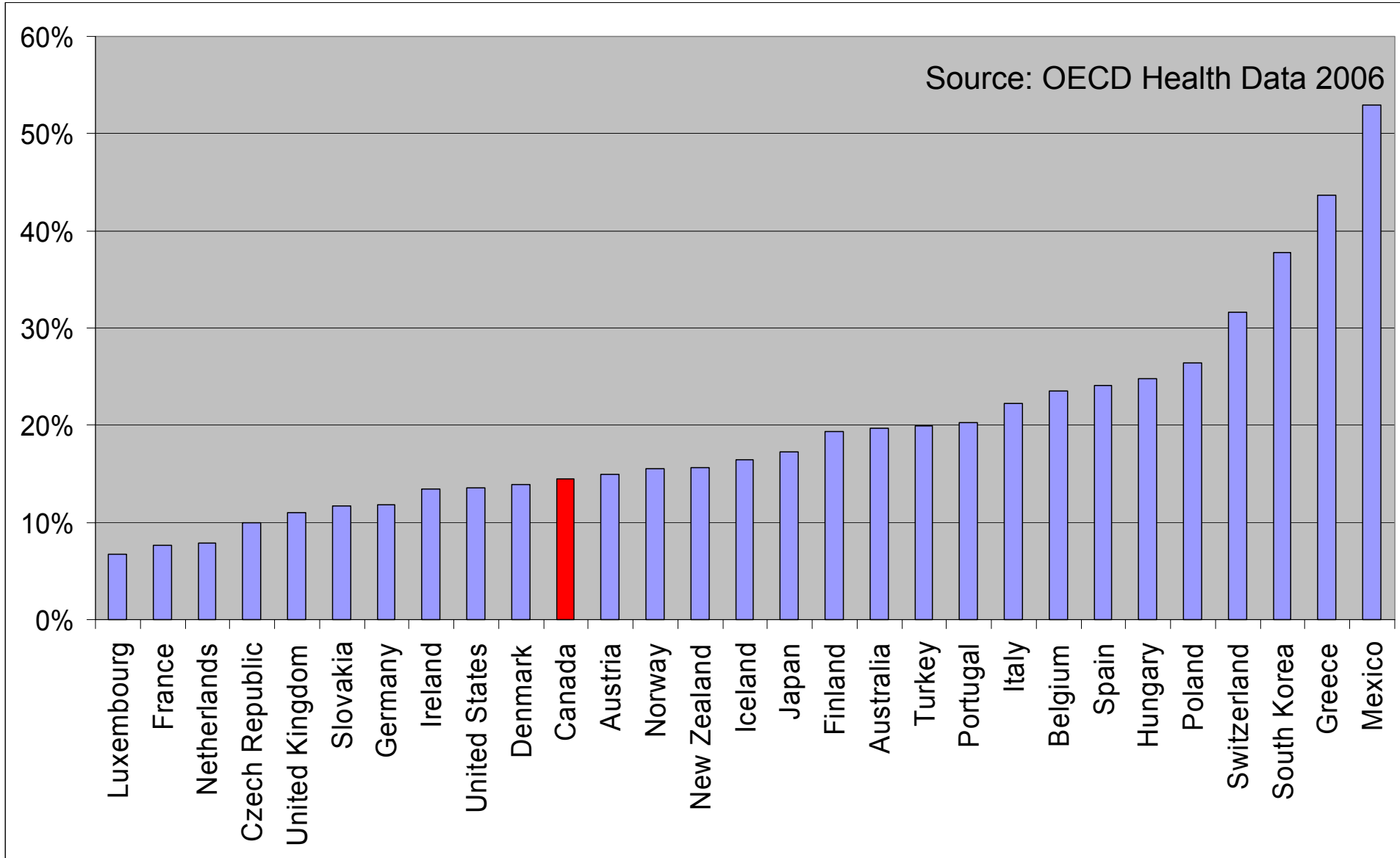
– To be compensated by?

- Cuts in program spending?

This panelist's contribution: identify ways to finance implementation of recommendations

Household Share of Health Care Expenditure (2003)

Source: OECD Health Data 2006



Ways to Slow Rise in Healthcare Expenditure:

1 - Allow User Fees

- User fees (deductibles, co-payments) exist in many public insurance plans in OECD member countries:
 - 60% of countries for medical and hospital insurance
 - 90% of countries for prescription drug insurance
 - Average fee for a physician consultation: CAD \$27
 - Average co-payment: 20% of cost
 - Basic rationale:
 - When price is zero, demand exceeds optimum quantity
 - Although medical services are a credence good, patients can take part in the decision to consume
- ➔ In Canada: user fees discouraged by CHA. If they were allowed, Canada would be in good company

Ways to Slow Rise in Healthcare Expenditure:

1 - Allow User Fees

- Household share of cost of healthcare expenditure
 - 15% in Canada
 - Less than 15% of total cost in 15 OECD countries
 - Between 15 and 25% of total cost in 10 OECD countries
 - Over 25% of total cost in 5 OECD countries
- Increasing share in Canada by 5%, from 15 to 20%, could save several G\$.

Source: Eco-Health, OECD 2006

Ways to Slow Rise in Healthcare Expenditure:

1 - Allow User Fees

- **Objections**

- User fees reduce demand of medically necessary services, not only of unwarranted services
- User fees hit the poor more than the rich

- **Responses**

- Empirical studies find that health outcomes in countries that have user fees are not inferior to outcomes in countries that do not
- Fees could be applied to a subset of in-basket services, not necessarily all
- Co-payments can be capped
- Poor can be exempted or compensated

Ways to Slow Rise in Healthcare Expenditure:

2 - Widen the Market for Private Health Insurance

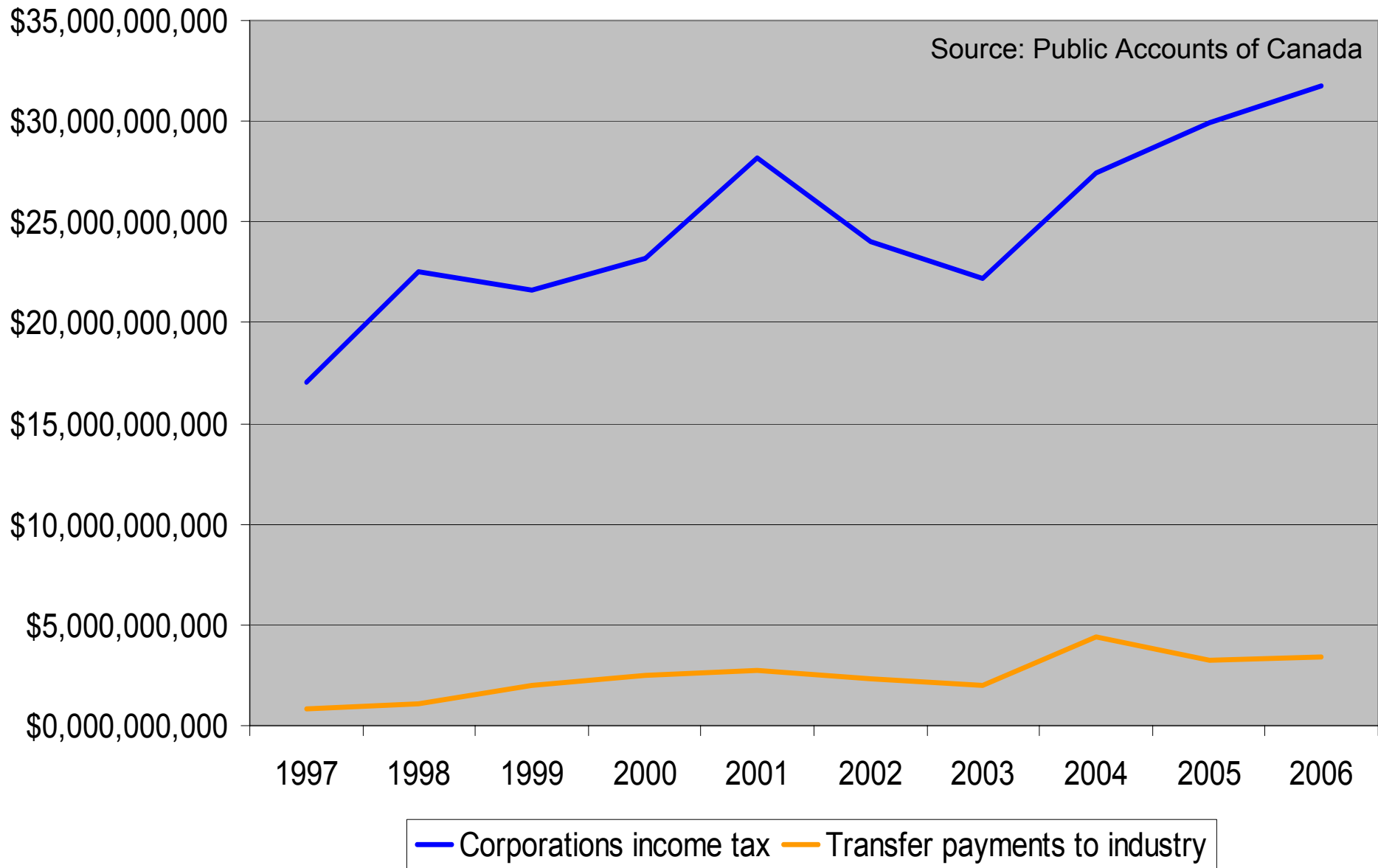
- Private health insurance already exists for:
 - Out-of basket services (prescription drugs, medical imagery, etc). Term: supplementary»
 - Some premium services (ex: private rooms in hospitals).
 - Medical conditions, as opposed to medical services
- Could also be allowed for:
 - Entire cost of publicly-insured services. Term: «duplicative»
 - Other premium services (in QC: newer drugs). Term: «complementary»

Ways to Slow Rise in Healthcare Expenditure: 2 - Widen the Market for Private Health Insurance

Again, Canada would be in good company:

- Duplicative insurance available in 10 OECD countries
- Complementary health insurance available in 5 OECD countries

Federal Corporate Income Tax Receipts & Federal Transfer Payments to Industry



Ways to Compensate for Short Term Loss of Revenue Pursuant to Reduced Taxation

Decrease Subsidies to Industry

- Reason 1: governments are bad cherry pickers
 - Example: Industry Canada programs
 - \$ 7.1 G in repayable funding from 1982 to 2005
 - Of which \$ 1.3 G (18%) has been repaid
 - Source: Canadian Taxpayer Federation
- Reason 2: government aid decreases incentive for individual firms and sectors to rationalize
 - Example: Quebec hog producers
 - Only 8 out of 29 past years without payout from income stabilization program
 - Average \$ 100 M yearly subsidy to industry over past 10 years
 - Source: Montreal Economic Institute

Ways to Compensate for Short Term Loss of Revenue Pursuant to Reduced Taxation

Decrease Subsidies to Industry

- Benefits

- Discourages wasteful lobbying activities
- Expectation of government non-intervention encourages wage flexibility
 - Examples from QC: Sawmills & Olymel
- Expectation of government non-intervention encourages labour mobility

Ways to Compensate for Short Term Loss of Revenue Pursuant to Reduced Taxation

Decrease Subsidies to Industry

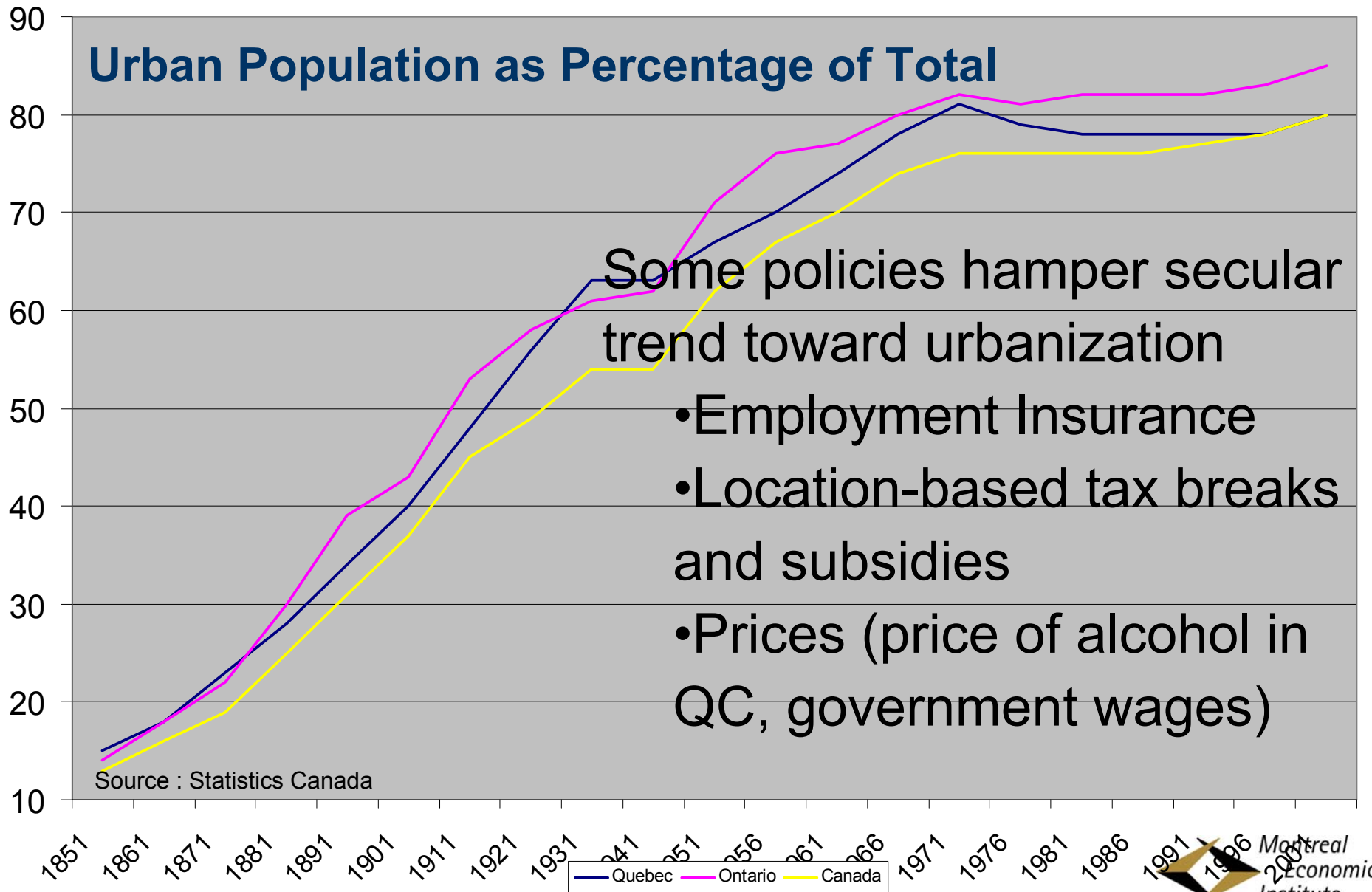
- Objection: “Other jurisdictions won’t stop subsidizing even if we do. Cutting back on subsidies puts our firms at a disadvantage”
- Response: Bilateral agreements with trading partners, as Alberta and BC

Article 12: Business Subsidies

1. Parties shall not directly or indirectly provide business subsidies that:
 - a) provide an advantage to an enterprise that results in material injury to a competing enterprise of the other Party;
 - b) entice or assist the relocation of an enterprise from the other Party; or
 - c) otherwise distort investment decisionsunless such subsidy is to offset a subsidy being offered by a non-Party or a government entity not subject to this Article.
2. Parties shall jointly encourage non-Parties to eliminate subsidies to business and refrain from bidding wars.

First In, Last Out: Attitudes

Urban Population as Percentage of Total



First In, Last Out: Attitudes ...Toward Urbanization

- Degree of urbanization accounts for \$3,300 of Canada-U.S. prosperity gap, second only to labour intensity
 - Higher per capita cost to provide education, health and and social services
 - Lesser labour market fluidity
 - Yet survival of smaller communities is one of our sacred cows
- Is that cow worth the cost of its feed?

Attitudes Toward Urbanization

- Need to revisit the assumption we need to occupy the territory
 - If communities were born for economic reasons, why should we not let them disappear for same reasons?

Take Home

- Several ICP recommendations imply increased spending or decreased government revenues
 - Governments need to somehow finance the measures
- ➔ We need to question some of the sacred cows of socio-economic policy in Canada
 - User fees in healthcare
 - Subsidies to industry
 - Anti-urbanization policies