

Canadian medicare, U.S. tax rates

By JACK MINTZ

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Campaigning politicians have been haggling about whether Canada could afford its health-care system if taxes fell to U.S. levels. The question is hypothetical: Canada moving overnight to U.S. tax levels just isn't in the cards. Besides, all parties are bidding for votes with promises to increase federal spending on health care in the near term, while avoiding deficits. Still, the question as framed implies that any tax cuts will mean lower health spending. Is that the case?

Internationally, taxation levels and public health-care spending by industrialized governments are only weakly related. As policy analyst Yvan Guillemette and I discuss in a recent C. D. Howe Institute e-brief, high-tax countries spend somewhat more on public health care than low-tax countries, on average. But there are so many exceptions that few, if any, conclusions can be drawn about the relationship.

Austria, Belgium, Finland, Greece, Italy, Luxembourg, the Netherlands and the Slovak Republic raise far more tax revenues as a proportion of GDP than Canadian governments, and spend less on health care. By contrast, Iceland spends more on health care, while its revenue as a proportion of GDP is somewhat lower than Canada's. Australian and U.S. governments, while spending nearly as much as Canada on public health care, do so at tax levels sharply lower than ours.

So many factors influence the relationship that it's impossible to conclude that lower taxes would mean lower health-care spending. For one thing, governments have different priorities. Even if countries have the same level of taxation, they could spend quite different amounts on health care if they chose. Canadian governments, for example, spend 16 cents of each dollar (U.S.) of revenue on health care; the balance goes to such programs as education, defence and security, employment insurance and infrastructure. Ireland, with tax rates almost as low as in the United States spends only 14 cents on health care, while the United States spends close to 18 cents of each revenue dollar, similar to Germany.

For another thing, governments play different roles in providing health-care services: the more individuals have to pay from their own wallets, the less governments have to raise taxes to cover costs. Canadians assume that their government pays for all health-care costs; the reality is that Canadian governments cover about 70 per cent of total health-care spending, with the balance paid out-of-pocket or by private insurance for such things as de-listed medical services, drugs, home care and dental procedures. By comparison, many European governments, including Denmark, Germany, Sweden and Britain, with their two-tier health care, cover more than four-fifths of public-health expenditures. In

fact, German public health care covers not only hospitals and physician services, as in Canada, but also dental and other costs that we leave to the private sector.

Aging causes an inverse relationship between health-care spending and tax levels: Countries spend more on health care in the final years of people's lives, when they pay fewer taxes because they earn less income. In 2001, the last year for which relevant statistics are available, 12.6 per cent of Canada's population was 65 or older. That compares favourably to Japan (18 per cent) and Sweden (17.7 per cent). Yet both countries spend less on health care than Canada.

Some governments may spend less because they have more efficient health-care systems. Sweden and Denmark, for example, achieve better health results than Canada at lower total private-public cost, even though their populations are older and more than four-fifths of their public health care is government funded, thanks to greater use of market-based incentives, including user fees. Several recent studies have shown that Canada achieves mediocre health-status results, although it is one of the highest per capita spenders on health care.

So Canadians can have a Canadian health-care system at U.S. tax rates. However, this is possible over time only if Canadians want their governments to reorder priorities and better manage their public finances. These are the choices Canadians can make at the ballot box.

Jack M. Mintz, president and CEO of the C. D. Howe Institute, is Deloitte & Touche professor of taxation, J. L. Rotman School of Management, University of Toronto.