

# Intelligence MEMOS



From: Åke Blomqvist and Colin Busby  
To: Ministers of Health and Finance in Canada  
Date: July 14, 2017  
Re: **IT'S TIME FOR HEALTHCARE TO JOIN THE PRODUCTIVITY PARADE**

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Low productivity growth is an important reason why real income and living standards for many Canadians are stagnating. At the same time, surveys have suggested that the performance of our healthcare system has been falling behind those in most of our peer countries. Reforms to make our healthcare system more efficient could help health system performance and boost economy-wide productivity.

Canada's lagging productivity performance is sometimes blamed on the fact that we spend a relatively small share of our resources on research and development. While increased R&D spending may be desirable in its own right, its impact on our national productivity growth is likely to be small: Canadian producers can draw on new technology and innovation from anywhere in the world. The most important condition for productivity growth, in healthcare or any other sector, is not the amount of R&D in Canada, but that we have both the information and the right incentives to exploit the new technologies and innovations.

Productivity in healthcare receives insufficient attention because of the way it is treated in our national accounts. Its product is very valuable: It saves lives and alleviates suffering. New medical technology has helped improve Canadians' health over time, contributing to higher average life expectancy, which was 71 years in 1960 compared to around 82 years today.

Health is not easy to quantify. There is no widely accepted index of healthcare output. And without a measure of a sector's output, national income accountants have no way of estimating productivity. As a result, existing estimates of Canadian productivity growth economy-wide are biased downward, since they do not account for the effects of advances in medical technology in the value of the healthcare sector's output.

But even if medical, device and pharmaceutical advances allow for more productive uses of healthcare resources today than in the past, [international comparisons](#) suggest that we are not using them as efficiently as in many other countries. In many cases new technology has also led to waste because costly new methods have been uncritically adopted. Overuse of MRIs and mammograms on average risk patients are two widely cited examples.

We need systematic guidelines and appropriate evaluation to maximize the contribution of new technologies. Health technology assessments should also be used to urge providers to abandon traditional methods that have been shown to be ineffective and focus more on cost-saving new technologies.

Reforming the payment system – in particular, introducing more bundled payments to providers of episodic and chronic care – is also a necessary part in any serious attempt to improve productivity in healthcare. The provinces should pursue payment system reforms alongside better measurement of patient outcomes.

Healthcare uses a large share of our resources, so greater efficiency produces a major effect on Canadians' welfare. Efficiency-enhancing reforms in healthcare need more attention in productivity debates.

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