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Price Controls and Global Budgets: Lessons from Canada

Canada tries to control health care spending with price caps and global budgets similar to those proposed by President Clinton. How well does the Canadian health care system work? Not bad — as long as you're not sick.

In general, Canadians have little trouble seeing a general practice physician. But specialist services and sophisticated equipment are increasingly rationed. Canada limits expensive medical technology and severely restricts its use outside hospitals, presumably to control spending. Within hospitals, physicians work under limited budgets. The resulting system of health care rationing is inefficient and unfair. It also threatens the quality of care Canadians receive. Nevertheless, Canada's per capita health care costs have been rising at roughly the same rate as those in the United States.

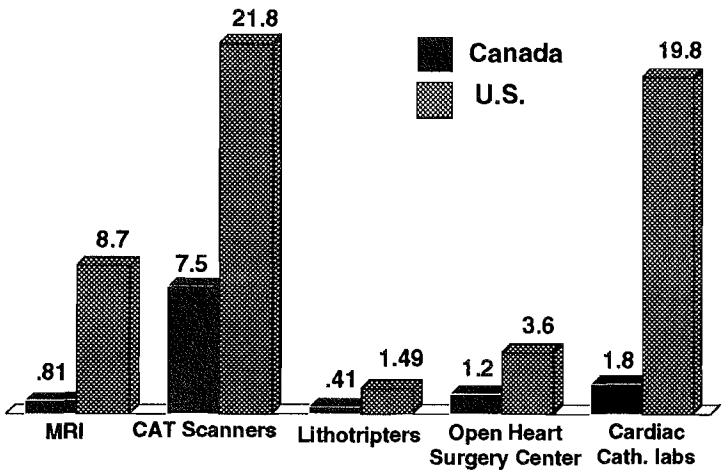
Lack of Access to Technology. Figure I compares access to modern medical technology in the United States and Canada:

- On a per capita basis, the United States has ten times as many magnetic resonance imaging (MRI) units — which use magnetism instead of x-rays — as Canada.
- The United States has three times as many computerized axial topography (CAT) scanners per person.
- The United States also has about three times as many lithotripsy units (to destroy kidney stones and gallstones with sound waves) per person.
- Per capita, the United States has about three times as many open-heart surgery units and eleven times as many cardiac catheterization units (for the treatment of heart disease).

While critics of the U.S. health care system claim that the U.S. has too much technology, all the evidence suggests that Canada has too little. And Canada spends very little on research and development.

FIGURE I

Technology Comparison
(per million people)



Source: *Medical Economics*, 1993.

Rationing by Waiting. About 1,379,000 Canadians (out of a total population of 26 million) are waiting for some medical service, ranging from visits to general practitioners to nursing home admissions. Of those, more than 177,000 people are waiting for surgical procedures. They must endure lengthy waits before they can meet with a specialist and even longer waits before they can get the surgery they need.

- The average wait to see an eye specialist in Prince Edward Island is six months — and it takes another six months on the average to be treated.
- On the average, it takes almost seven weeks to see a gynecologist in New Brunswick and another six months to be treated.
- To see an ear, nose and throat specialist takes a little more than two weeks in Newfoundland — but it takes another six months to be treated.

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According to Statistics Canada, 45 percent of those waiting describe themselves as "in pain," and the Canadian press is full of examples of patients who have died because their heart surgery was delayed.

Lack of a Right to Medical Care. Canadians have no enforceable right to any particular medical service. They don't even have a right to a place in the rationing line. For example, the 100th person waiting for heart surgery is not entitled to the hundredth surgery. Other patients can, and do, jump the queue for any number of reasons. Until adverse publicity put a stop to it, even animals could jump the queue and get a CAT scan at York Central Hospital in a Toronto suburb. The tests were done at night and the charge was $300 each. But people are not allowed to pay for a CAT scan.

Discrimination. When health care is rationed, the poor, racial minorities, the elderly and people who live in rural areas tend to be pushed to the rear of the waiting lines. On the other hand, members of the federal Parliament and 4,364 high-ranking federal bureaucrats can avoid waiting lists because they have access to the National Defense Medical Center.

Crossing the U.S. Border. Canadians increasingly come to the U.S. for care they cannot get promptly at home. When the premier of Quebec had a potentially deadly skin cancer, he went to the U.S. and paid for the treatment himself. In a recent survey, almost one-third of Canadian physicians said they had referred patients to another country in the past five years, mainly to the United States.

Inefficiency. While 177,000 wait for surgery in Canada, at any point in time one in five hospital beds is empty. Moreover, about 25 percent of all acute-care beds are occupied by chronically ill patients who are using the hospitals as nursing homes — often at six times the cost of alternative facilities. Because these patients use mostly the "hotel" services of the hospital, they are less draining to limited hospital budgets.

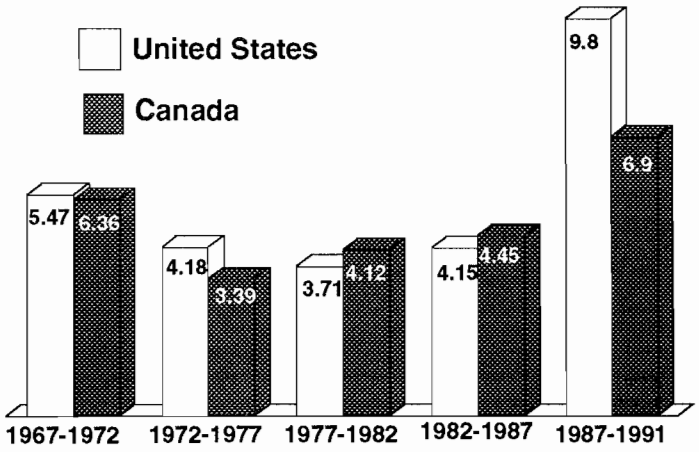
Failure to Control Costs in Canada. Despite global budgets, rationing by waiting and other efforts, Canada has been no more successful than the United States at controlling costs. In 1990, the United States spent $2,566 per person on health care, whereas Canada spent only $2,020. However, over the 20 years from 1967 to 1987, real increases in health care spending per capita were virtually the same in both countries (4.38 percent in the United States versus 4.58 percent in Canada). Moreover, Canada's more recent relative success [see Figure II] has been achieved largely by denying and delaying care.

Lessons for the U.S. Capping the supply of care through budget and premium limitations, as Canada has done, will lower costs only to the extent that it inhibits technology, introduces waiting lines and reduces the capacity to meet America's health care needs.

FIGURE II

Increase in Real Health Care Spending Per Capita in the United States and Canada

Annual Percentage Increase



Source: Edward Neuschler, *Canadian Health Care: The Implications of Public Health Insurance* (Washington, DC: Health Insurance Association of America, 1989), Figure 4.4, p. 41. 1987-91 figures from Health and Welfare Canada with calculations by the Fraser Institute.

To order NCPA Policy Backgrounder No. 129, "What President Clinton Can Learn from Canada about Price Controls and Global Budgets," send $5 to the National Center for Policy Analysis, 12655, N. Central Expy., Suite 720, Dallas, TX 75243.