Intelligence MEMOS

From: William B.P. Robson and Rosalie Wyonch

To: Canadians concerned about healthcare

Date: June 17, 2019

Re: **Hoskins Pharmacare Report: Enthusiasm for Drugs Can Impair Memory**

The Advisory Council on the Implementation of National Pharmacare released its **final report** last week. It recommends implementing a universal pharmacare program for all Canadians and that the federal government cover all incremental costs. For provinces, the temptation to shift the incremental cost of prescription drug coverage to the feds will be tempting. But the history of federal-provincial relations in funding hospital and doctor services provides reason for caution. History tells us that these deals don't last.

The major expansions of publicly funded doctor and hospital services occurred half a century ago, when federal support for national social programs had strong political appeal, and a robust economy made relatively **open-ended federal support of provincial programs seem affordable**. Originally, the federal government underwrote half of aggregate provincial spending on doctor and hospital services.

But slower growth in the economy and federal revenue after the mid-1970s created fiscal pressures that prompted changes to federal grants. The 50 percent cost sharing arrangement gave way to block grants and a transfer of tax room to provinces. Ottawa's fiscal problems intensified during the 1980s – and by the mid-1990s, set the stage for a major retrenchment and changes to federal transfers to provinces. By the early 2000s, the share of spending of provincial, territorial and local governments financed by federal transfers was way down – yet Ottawa continues to dictate terms, and sporadically penalize provinces when politically expedient, under the Canada Health Act.

The combination of Ottawa's historic role in subsidizing provincial health programs, and current federal enthusiasm for deficit spending contrasting with provincial restraint, makes it natural for pharmacare advocates to call for a significant federal role. This history also contains some warnings, however: past eras of robust federal support for provincial spending and program initiatives gave way to periods of retrenchment and provincial budget squeezes, with no concomitant retreat from the federal government from its political soapbox.

In the current case, a force likely to erode the original deal from the outset will be the interprovincial differences in pharma coverage that will complicate deciding on a formulary, even a relatively small one, to cover essential medicines. Differences in provincial support of doctor, hospital and other services also matter.

The advent of publicly funded doctor and hospital care occurred in an environment without much public insurance for any medical services. Public coverage of drugs is already extensive, and public coverage of other medical services even more so. A fundamental problem with a strong federal role in drug funding and formulary design is that it does not improve integration of healthcare and would likely have long-term consequences for the sustainability and efficiency of Canada's healthcare system as a whole. As **Blomqvist and Busby (2015)** point out, for example, the federal government cannot directly influence doctors' prescribing behavior – and thus cannot manage for cost-effective combinations of drugs and other inputs. Worse, federal coverage of certain drugs could induce provinces to shift treatments toward those drugs, potentially compromising other efficiencies and patient outcomes.

Currently, **none of the provincial prescription drug insurance plan formularies contain all 125 essential medicines**. There is even less agreement between public formularies when it comes to other drugs. Provinces that already offer more extensive formularies and cover large portions of the population will face lower incremental costs to implement coverage for the uninsured population, meaning that on a per capita basis, federal transfers for pharmacare are not likely to be equal across provinces. The inevitable interjurisdictional squabbles over the "fairness" of federal funding will not help the durability of the deal.

The goal of ensuring that all Canadians have access to necessary medications is admirable. There are, however, **ways to fill the existing gaps** in coverage that would cost less and avoid some of the long term inefficiencies and jurisdictional complexities threatened by the advisory council's recommendations. History has key lessons for how Canadians should tackle pharmacare. We should not let our enthusiasm for drugs impair our memories.

William B.P. Robson is the President and CEO and Rosalie Wyonch is a Policy Analyst at the C.D. Howe Institute.

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