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## Building a healthy economy: More than just banks and stocks

By Scott A. Wolfe

As the financial crisis continues to unfold and talk of a recession increases, the economy will be an important prism through which Canadians filter information in the run-up to the federal election. While health care, the environment and social justice continue to top the lists of priorities for Canadians, there are some who will attempt to argue that narrow economic issues are more important as voters approach the ballot box. They will argue that our social concerns must be set aside to deal with the so-called fundamentals of economic stability and growth.

But it's not just the economy that really matters. Indeed, the best way to build a healthy economy is to build strong and healthy communities.

Strong public systems and increased public investment in health and social development do not impede economic growth. In fact, they are key ingredients for economic growth and stability – offering what can best be called the *Health Economic Advantage*. Without this advantage, we jeopardize our chances for economic growth. Increased social investment in health care, child care, income security, affordable homes and other measures to build a fair and inclusive society are not only best for individual men, women and children and therefore the right thing to do. They are also an economically sound strategy for Canada.

During this election, it is crucial to carefully examine what each party will do to protect Canada's public systems, including our much-loved but often neglected national health care system. It's important to look at each party's social investment plans. These are not merely signs of commitment to a healthy, fair and inclusive country. They are indicators of commitment to Canada's economy.

In setting out the Health Economic Advantage, there is one key priority that all political parties should embrace, and three targets to monitor and make sure that we are on the right path.

**Recommendation:** Make a clear commitment to enforcing the *Canada Health Act* and protecting Canada's single-tier, medicare system

**Target 1:** Increase Canada's total social investments to a minimum of 22% of GDP by 2010, up from the current level of 17.3%. Using 2007 estimates, which put Canada's GDP per capita at \$38,600, this

would mean investing an additional \$1814/person in income security programs and other social programs and services. Right now, Canada ranks a very low 25<sup>th</sup> place among our partners in the Organization for Economic Co-operation and Development (OECD). We should aim to be among the top ten.

**Target 2:** Reduce Canada's general poverty rate to 8 percent or less by 2012 (down from 10.8%), and ensure that Canada has one of the five lowest rates of poverty among OECD countries by 2015.

**Target 3:** Reduce Canada's child poverty rate to 10 percent or less by 2012 (down from 13.1%), and ensure that Canada has one of the five lowest rates of child poverty among OECD countries by 2015.

### **Fact #1: Strong, publicly-funded social systems foster economic growth**

*Summary: Publicly funded social programs—the best example being medicare—ensure that Canada is an attractive environment for businesses to invest. Simply put, it's good for their bottom line, saving them millions of dollars per year in employer-based health insurance and other costs.*

As the global marketplace becomes increasingly competitive and complex, businesses recognize that a strong and equitable social environment contributes to business success. In Canada, investments by federal and provincial governments in education and health care benefit us economically in ways that typically escape public perception. Canada continues to entice new business and retain existing business, because of the competitive advantage provided by our national, public health care system.

The Conference Board of Canada gave prominence to this issue, in 1999, when it released a briefing paper entitled *Corporate Health Care Costs in Canada and the U.S.: Does Canada's Medicare System Make a Difference?* This and other research have noted, for example, that in the US automakers pay about \$1500 in insurance premiums to private health insurance companies for every vehicle they build. In Canada, on the other hand, health care costs—largely in the form of corporate taxes—cost automakers about US\$120 per vehicle.<sup>1</sup>

Also in 1999, A. Charles Baillie, former Chairman/CEO of TD Bank and Honorary Chairman of the Council of Chief Executives declared, "I choose to talk about health care as a banker—as a corporate leader—because I believe it's high time that we in the private sector went on record to make the case that Canada's health care system is an economic asset, not a burden, one that today, more than ever, our country dare not lose."<sup>2</sup>

Government's responsibility for universal health care and several other social goods in Canada provides corporations with significant economic benefit. The Council of Canadians has called this competitive advantage Canada's "best kept secret." And it reaches beyond medicare. It includes our strong education system, and other social benefits that reduce corporate expenditures.

In a telling 2005 *New York Times* article, columnist Paul Krugman shared a glimpse into the motivations of Toyota in setting up shop in Canada. He writes: "Education is only one reason Toyota

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<sup>1</sup> Webster, P (Jan 14, 2006). "US big businesses struggle to cope with health-care costs". *The Lancet*, Volume 367, Number 9505

<sup>2</sup> Baillie, AC (Apr 15, 1999). Remarks to the Vancouver Board of Trade.

chose Ontario. Canada's other big selling point is its national health insurance system, which saves auto manufacturers large sums in health benefit payments compared with their costs in the United States".<sup>3</sup>

The fact that Ontario has seen recent job loss in its auto manufacturing sector must not cause us to lose sight of this continuing advantage. Recent job loss in Ontario has been the result of declining automobile sales and the high cost of oil. Without the advantages provided to business by a high quality education system and Medicare, among other social benefits, it is likely Ontario, and Canada, would be hemorrhaging further business. As André Picard has put it, "Canada's medicare system is far from perfect, but it has done wonders for the bottom line of corporate Canada."<sup>4</sup>

Newly appointed Ontario Minister of International Trade and Investment, Sandra Pupatello, has also highlighted the advantage of the province's public school system in her pitch to overseas companies concerned about the education of their employees' children:

"I say, 'well, actually, no matter where you come in Ontario, your little children will have a class that's no bigger than 20 children per class because we have this great policy (on capping junior kindergarten through Grade 3 classes). We automatically have the answers to the quality-of-life issues that really matter to their key people... because they don't want to be in an economy that doesn't offer them a good lifestyle."<sup>5</sup>

It is clear that Canada's robust medicare and education systems are prime examples of an economic competitive advantage that Canadians cannot afford to jeopardize. And we are only just beginning to truly tap into this potential.

Unfortunately, Medicare has recently come under increased assault from forces that are trying to strip this advantage away from Canada, in favour of more costly, and less coordinated private health care services.<sup>6</sup> This not only threatens access to health care for Canadians, as indicated by the 45 million Americans without health insurance, but also the advantage medicare provides to our economy. It is critical more so now than ever for federal and provincial leaders to actively protect our single-tier public health care system. In many ways, our economy counts on it.

## **Fact #2: Increased social investment will ramp up, not impede, economic growth**

*Summary: The improved health of a population is linked to increased economic development. Key social investments like income security programs, child care benefits and housing support programs improve health, and are also ingredients of economic development.*

Not only is our delivery system for health care essential to Canada's Health Economic Advantage, so too is our actual health. *Health* itself is tied, in a significant way, to our prospect for economic growth and stability. Consider, for example, a major study which compared ten industrialized countries up to

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<sup>3</sup> Krugman, P (Jul 25, 2005). "Toyota, Moving Northward", *New York Times*.

<sup>4</sup> Picard, A (Dec 1, 2005). "Our health care serves up profits" in *The Globe and Mail*.

<sup>5</sup> Benzie R. "Pupatello relishing new role: As province's 'salesperson' around the world, trade minister looks to diversify Ontario economy" *Toronto Star*. September 20, 2008.

<sup>6</sup> Russell F. "Suit seeks to open Canadian health care to Privatizers". *Winnipeg Free Press*. September 24, 2008.

the mid-1990s, and concluded that better rates of health have increased the rate of economic growth in these countries by nearly 30 percent<sup>7</sup>.

When we are healthier, overall, we are more productive and generate increased economic results. US economist Peter Howitt has described this in simple terms:

Healthier workers are more productive for a variety of reasons – increased vigor, strength, attentiveness, stamina, creativity, and so forth. This means that when health improves, the country can produce more output with any given combination of skills, physical capital and technological knowledge. One way to think about this effect is to treat “health” as another component of human capital, analogous to the “skill” component.<sup>8</sup>

And, in terms of improving our health, access to *health care* is only one piece of the puzzle. The reality is that social and economic conditions play an even more important role in ensuring our health than access to health care services when we are sick.

The World Health Organization (WHO) recently concluded an unprecedented global study showing that social issues such as poverty, lack of access to adequate housing, lack of investment in early childhood development, inability to afford a nutritious diet and other social and economic factors are tremendous causes of illness worldwide. The Report of the WHO Commission on the Social Determinants of Health, led by a panel of 19 global experts in government, economics, health, and social development, concluded that around the world massive efforts are required to close the gap on these factors that diminish health.<sup>9</sup> Income inequality and poverty are key factors.

Canada is no exception. In fact, Canada’s own Chief Public Officer of Health, Dr. David Butler-Jones, reported in 2008 that evidence shows Canadians, “with better incomes, better education and better social supports enjoy better health than those with fewer social and economic opportunities.”<sup>10</sup>

An abundance of other Canadian studies have identified a clear link between health and income levels across Canada, and it affects all Canadians, not just those living in poverty. While the poorest health is found among Canadians with the lowest incomes, poor health follows a social gradient—the lower one’s income falls the worse health becomes<sup>11</sup>. Whether we look at self reports of overall health status, infant mortality rates, overall mortality rates, chronic diseases, or other factors, health status is almost always worse for those with lower incomes.<sup>12</sup>

Income disparities and poverty are only two of many factors that affect the health of Canadians, but they are the single greatest determinants of health since they affect the ability to afford adequate

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<sup>7</sup> Arora S. Health, human productivity, and long-term economic growth. *Journal of Economic History* 2001; 61 (3).

<sup>8</sup> Howitt P. *Health, human capital and economic growth: a Schumpeterian perspective*. February 9, 2005. Brown University

<sup>9</sup> WHO (2008). *Closing the gap in a generation: Health equity through action on the social determinants of health*. Geneva.

<sup>10</sup> Butler-Jones, D. et al (2008) *The Chief Public Health Officer’s Report on the State of Public Health in Canada*. Ottawa

<sup>11</sup> Wilkins, R. (2002) “Trends in mortality by neighbourhood income in urban Canada from 1971 to 1996.” *Health reports (Stats Can), Supplement 13*, 1- 28.

<sup>12</sup> Phipps, S. (2003). *The Impact of Poverty on Health: A Scan of Research Literature*. Ottawa, ON: Canadian Institute for Health Information.

housing, a healthy diet, child care and other critical needs. In light of the impact of these social factors on our health, and since our health itself contributes to economic development, it is critical that investments into income security and poverty reduction be made a high priority.

### **Canada's Health Economic Advantage is in jeopardy**

Many Canadians don't realize it, but our country is slipping further behind other industrialized nations in terms of social investment and contributions to the health of our population. Canada now ranks 25<sup>th</sup> out of 30 OECD countries in terms of social spending as a percentage of GDP, and 11<sup>th</sup> out of 30 OECD countries when it comes to public health care spending.<sup>13</sup>

Our supports to individuals and families have teetered, and Canada now ranks 22<sup>nd</sup> among OECD countries for levels of public unemployment coverage, 13<sup>th</sup> in terms of minimum wage levels, and 16<sup>th</sup> with respect to out-of-pocket child care expenses.<sup>14</sup> Income has become more inequitably distributed, with a shrinking middle-income class across Canada. Our country ranks 14<sup>th</sup> in terms of equitable income distribution, and has the 5<sup>th</sup> highest gap in wages between men and women employed full-time in similar positions.<sup>15</sup>

The impact of this decline is seen in a number of social statistics. The most recent available data show that Canada ranks 14<sup>th</sup> among OECD countries in reducing general poverty and childhood poverty (ten percent of Canadians live in poverty and one in six Canadian children lives in poverty)<sup>16</sup>. These and other social and economic indicators are presented as Appendix 1.

All of this should be a wake-up call to Canadians. Canada ranks 10<sup>th</sup> among OECD countries in per capita income, with less than \$1000 per year, per person, separating us from Sweden, Austria, Iceland and Netherlands, which rank 9<sup>th</sup> through 6<sup>th</sup>. We are one of the very wealthiest countries on earth (the seventh largest economy in the world, according to *The Economist* newspaper). Still, our social investment levels show that we have fallen further and further behind, impeding social development and our competitive advantage as a healthy country.

If Canada were to increase social investments and supports, akin to what many of our partners in the OECD have done, not only would we improve our health, but our economic growth would also be enhanced.

In his widely-acclaimed research on outcomes of social investment and economic growth in several European nations, economist Peter Lindert has shown that it is very difficult to find any negative effect of higher social investment levels on economic growth. Countries that have higher rates of social investment typically develop tax structures that incur relatively small deadweight losses, and pay close attention to avoiding disincentive effects—for example, a potential disincentive to work hard that might result if publicly funded health care was not provided to those who earn over a certain income threshold.<sup>17</sup>

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<sup>13</sup> OECD. *Society at a Glance: Social Indicators*. Paris, 2006.

<sup>14</sup> Ibid.

<sup>15</sup> Ibid

<sup>16</sup> Ibid

<sup>17</sup> Lindert P. (March 2004) *Growing Public: Social Spending and Economic Growth Since the Eighteenth Century, Volume I: The Story*. Cambridge University Press.

He has shown that while employment rates have fallen marginally in some countries that invest more heavily in social services and supports, the actual productivity of the overall workforce has gone up, largely due to the growth-enhancing effect of what governments spend their money on—education, public health, early childhood development, housing and income security. Additional social savings are accrued through reductions in illness, reduced criminal justice costs and other savings on costly social burdens.<sup>18</sup>

A look at the 15 OECD countries that spend the *most* on social services and programs is revealing. From 2001-2006, average GDP per capita across these 15 countries grew 2.2 percent. Canada's own GDP per capita growth rate during the same period according to the OECD was lower, at 1.7 percent.<sup>19</sup>

And the cost of doing business in these 15 countries appears to have kept pace with, or been better than Canada. The per unit cost of labour across the same 15 top social spending countries, for example, rose an average of just 1.3 percent from 2003 to 2006. This compares to a rise of 2.2 percent in Canada and 1.5 percent in the United States.<sup>20</sup> There are two key messages:

1. Canada can afford to invest more in social services and supports.
2. Increased social investment does not impede economic growth.

### **Seize the day: make Canada's Health Economic Advantage a priority this election**

Canada's robust public systems, especially medicare, are a key competitive advantage in the global marketplace. And evidence shows that there is little to support any argument that increased social investments will impede economic growth. To the contrary, evidence demonstrates that investing in social development and health actually may help *increase* economic growth.

This begs the question: why isn't Canada doing more? Canadians must ask that question during this election period.

There is much work ahead to realize the full potential of our Health Economic Advantage. That's the tough news. The good news, particularly for Canadians who have been wishing we could do more, but believed we couldn't because of the economy, is that we actually can.

In fact, we can't afford not to.

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<sup>18</sup> Ibid

<sup>19</sup> Source OECD. *The OECD Factbook 2008* Accessed September 24, 2008 at <http://oberon.sourceoecd.org>

<sup>20</sup> Ibid. Unit labour costs measure the average cost of labour per unit of output. As such, a unit labour cost represents a link between productivity and the cost of labour in producing output.

## Appendix: A snapshot of Canada's decline

### Actual social spending and supports:

- Among all 30 OECD countries in terms of total social spending, Canada ranks 25<sup>th</sup>.<sup>21</sup>
- Only the United States, Ireland, Turkey, Mexico and Korea (in that order) spend less on social services, health care, income support programs and pension programs than Canada, as of 2004.<sup>22</sup>
- Canada ranks 11<sup>th</sup> among all 30 OECD countries on public health care spending as percentage of GDP.<sup>23</sup>
- Out of 28 OECD countries where data exist, Canada ranks 22<sup>nd</sup> for levels of public unemployment coverage.<sup>24</sup>
- Out of 21 OECD countries where data exist, Canada ranks 13<sup>th</sup> in terms of minimum wage levels relative to median income.<sup>25</sup>
- Canada ranks 16<sup>th</sup> out of 23 OECD countries with respect to out-of-pocket child care expenses.<sup>26</sup>

### Poverty and income inequality:

- As of 2000, Canada had slipped to 14<sup>th</sup> among OECD countries for the general poverty rate and child poverty rate—as of 2005 one in 10 Canadians lives in poverty and one in six Canadian children lives in poverty.<sup>27</sup>
- As of 2000, Canada had also slipped to 14<sup>th</sup> among OECD countries for measure of equitable income distribution (GINI coefficient).<sup>28</sup>
- Among 21 OECD countries, Canada now has the 5<sup>th</sup> highest gap in wages between men and women who are employed full-time in similar positions.<sup>29</sup>
- Despite the above, a study of 17 OECD countries found that people in only three other countries under-estimated the actual state of income inequalities in their country more than Canadians. These were the US, Japan, and New Zealand.<sup>30</sup>
- Among 22 OECD countries with available data, Canada has the 7<sup>th</sup> highest level of material deprivation (a basket of factors such as inability to adequately heat one's home, inability to afford a healthy diet, inability to access health care, households with bills in arrears, and other factors). Canada also has the highest rate of material deprivation among all OECD countries with a GDP per capita above US\$25,000.<sup>31</sup>

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<sup>21</sup> OECD (2006). *Society at a Glance: Social Indicators*. Paris.

<sup>22</sup> Ibid

<sup>23</sup> Ibid

<sup>24</sup> Ibid.

<sup>25</sup> Ibid.

<sup>26</sup> Ibid

<sup>27</sup> Ibid

<sup>28</sup> Ibid

<sup>29</sup> Ibid

<sup>30</sup> Ibid

<sup>31</sup> Ibid