

The Economist logo, featuring the words "The Economist" in white serif font on a red rectangular background.**Canadian health care**

Follow the leader

The provinces crack down on prescription-drug spending

Jul 8th 2010 | OTTAWA

AS AMERICA debated health-care reform last year, many advocates of universal coverage looked approvingly at Canada, which spends less per head on medical care than the United States does and has a longer life expectancy. Yet this pillar of Canada's national identity is now creaking under the burden of cost. Health spending, which is administered by the provinces, has increased from nearly 35% of their budgets in 1999 to 46% today. In Ontario, the most populous province, it is set to reach 80% by 2030, leaving pennies for everything else the government does, not counting tax increases or new federal transfers. The biggest culprit is prescription drugs, which have seen their share of public-health spending triple since 1980. Cash-strapped provincial premiers are starting to focus on medicine costs—prompting fierce resistance from the drugs industry.

South of the border, Canada is renowned as a source of cheap drugs on the internet. But whereas branded medicines cost less in Canada, because provinces making giant orders can negotiate lower prices with manufacturers, generic-drug costs in Canada are among the world's highest. Although provinces cap the amount they pay for generic drugs at a fixed fraction of the branded price, they have set the bar too high. That has allowed manufacturers to pay pharmacists legal kickbacks—worth C\$750m (\$717m) a year in Ontario alone—for stocking their products, while still earning large profits.

In March Ontario said it would slash the ratio of generic to branded prices from 50% to 25%, saving over C\$500m a year. The province offered to replace some of pharmacists' lost income by increasing dispensing fees and paying them for patient counselling. But the industry was not mollified. Shoppers Drug Mart, Canada's biggest pharmacy chain, threatened lay-offs and store closures, and asked customers to sign protest cards. It also made the fight personal, cutting hours at seven stores in the provincial health minister's district. The official leading the reform, who had received death threats in a previous round of cost-cutting, now has police protection.

Nonetheless, the government held firm, and the new prices took effect on July 1st. Other provinces will surely follow suit. In late June Quebec's health minister confirmed he would impose the 25% price ratio later this year, although he plans to negotiate with the industry first, to avoid an Ontario-style rebellion. The market may lead laggard provinces to adopt the policy, because if they continue to pay higher prices, arbitrageurs may make bulk purchases in Ontario to sell elsewhere. The private sector is on board as well: an association of the largest employers in Atlantic Canada has begun talks with generic-drug makers seeking lower medicine prices for health plans that provide more than the government-funded basics.

Future battles over health costs will probably not be so easily won. One time bomb is set for 2013, the expiry date of a deal between the federal government and the provinces to transfer C\$25 billion a year into provincial health coffers. Seeking to shore up its finances in advance, Quebec added a health tax to its 2010 budget, requiring individuals to share a burden directly

that was previously paid out of general public revenues or withheld from wages. And like most rich countries, Canada's population is ageing, and the demands on its health system will soar when the baby-boom generation retires. America has already had its dose of health-care debate; Canada's may just be starting.

The Americas

Copyright © The Economist Newspaper Limited 2010. All rights reserved.