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Healthcare: Technology is a bigger cost driver than demography

by [Julia Belluz](#) on Friday, February 10, 2012 12:34pm - [27 Comments](#)



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An aging population—or “gray tsunami”—is the shadow lurking in the background of health care, poised to drive up health-care spending and wipe out the system as we know it. Technology, on the other hand, is a means to improving efficiency in the system and reducing costs. Consider the early, sparkling [promises](#) of Obamacare south of the border or electronic health records in Canada. Policymakers trumpet this conventional wisdom—but it isn't quite right.

As a [recent report](#) by the credit rating agency Standard & Poor's argues, your grandmother's visits to the doctor aren't the key driver of health costs. Health technology, however—encompassing anything from drugs to diagnostic imaging—is becoming the great burden on the health systems of G20 countries.

Unlike the graying of the workforce, “These non-demographic factors carry lower long-term visibility on budgetary challenges for policymakers,” S&P notes, warning that if governments of developed economies don’t shift their focus from pension reform to figuring out how to constrain other causes of rising health-care costs, they’ll face “ballooning” debt levels and possible downgrades of their creditworthiness.

As novel and counter-intuitive as it may sound, S&P’s warning isn’t anything new, actually. Despite the popular rhetoric about the “gray tsunami” continually bandied about by politicians, there are some three decades of research showing that aging alone is a marginal and predictable driver of health-care cost increases, in the order of about 0.5 to one per cent per year. Most recently, a [report](#) by Canadian Institute for Health Information noted that population aging contributed an annual average growth of only 0.8 per cent.

Politicians, on the other hand, too often neglect to address the drain on public coffers from technology-related costs. According to the CIHI report, spending on prescription drugs grew at an annual average rate of 10.1 per cent between 1998 to 2007—a rise that was caused by both increased utilization and a change in the mix of drug types. Increasing diagnostic testing (lab and imaging) was another big driver. Plus, we’re all using the system more—not just older folks, noted [Kimberlyn McGrail](#), assistant professor at the University of British Columbia. She has studied health care spending and found that “what is driving increasing health-care costs is greater intensity of service use. People of all ages are receiving more and sometimes more expensive services than used to be the case.”

So, we are gobbling up health care, and average health-care costs per head are going up, largely because of the way we use technology, noted McGrail. “There are new drugs and new conditions that they treat, there are new tests that can be done, and new recommendations for who should receive those tests and how often they should be getting them. There are new surgical procedures and better ways of doing older procedures that make surgery better and safer, but also means that a larger pool of people are considered ‘eligible’ to receive those interventions.”

This doesn’t have to be the case, though. Technology can and does save money in health care—when it’s used prudently. As UBC professor and veteran health researcher [Morris Barer](#) puts it, “technology in and of itself” is not the problem. “It’s that the uncritical application and use of new and more expensive technology—including drugs—can be a cost driver.”

Now, the big question we need to answer is how much of this increasing use of health care is actually improving our health and quality of life. For example, another area of swelling costs over the years has been physician services. Consider this [report](#) out of the Institute for Clinical Evaluative Sciences this week: Payment to Ontario physicians shot up to \$8 billion in 2010, more than twice the \$3.7 billion it stood at in 1997. (Doctor compensation now accounts for 20 per cent of total health care costs in the province, and Ontario is not alone; according to the CIHI report, physician spending across Canada was among the fastest-growing health categories in recent years, increasing at 6.8 per cent per year between 1998 to 2008.) But, ICES concludes, though we’ve continued to increase doctor pay, we haven’t determined whether this has led to improved patient outcomes or a better health system overall.

This all suggests we can take comfort in the fact that it’s not an unstoppable tsunami that’ll wipe us out. The problems we’re facing are amenable to sound policy responses. Instead of demographic determinism, “The real cost drivers are increased utilization, across all age groups, technology, and labour costs,” explains Canadian health-policy analyst, [Marcus Hollander](#). “We have a policy and management challenge.”

That’s a nice thought, if only it were that simple. Politicking often gets in the way of lucid policy. A recent example was the Ontario Health Minister [distancing herself](#) from the suggestion that the province would no longer pay for elective cesarean sections—a reasonable move—after a public uproar. As André Picard, the *Globe and Mail*’s health policy columnist, observed, “There was an outcry and the minister quickly backed down. So the province limits itself to delisting trivial things like vitamin D tests.” (All this unfolded on the eve of a [report](#) by

economist Don Drummond, to be released next week, about how to eliminate the province's public deficit. The "austerity czar" is [expected](#) to recommend drawing down C-sections as a cost-saving measure.)

So, for now, while policymakers promise "evidence-based decisions" to cut spending, they seem to be targeting only certain drivers of cost, possibly the ones they think voters will intuitively understand—like the aging population. "The gray tsunami is used as a distraction," notes [Barer](#), "and an excuse not to focus on the real sources of cost pressure." Maybe the possibility of future credit downgrades and European-style austerity, as S&P foreshadows, will push Canadian policymakers in a truly evidence-based direction—and away from the tidal wave of easy rhetoric.

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