SUMMARY VERSION

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The economic impact of increased public sector health spending in Canada

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CFNU
CANADIAN FEDERATION OF NURSES UNIONS

Canadian Federation of Nurses Unions

ABOUT THE CFNU

The Canadian Federation of Nurses Unions (CFNU) is Canada's largest nurses' organization representing frontline unionized nurses and nursing students in every sector of health care — from home care and LTC to community and acute care — and advocating on key priorities to strengthen public health care across the country. We are relentless advocates for the health and safety of our members and the patients that we care for from coast to coast. Join us as we speak up for a stronger health care system and a better workplace for all nurses.

LAND ACKNOWLEDGEMENT

From coast to coast to coast, we acknowledge the ancestral and unceded territory of all the Inuit, Métis and First Nations Peoples that call this land home. The Canadian Federation of Nurses Unions is located on the traditional unceded territory of the Algonquin Anishnaabeg people. As settlers and visitors, we feel it's important to acknowledge the importance of these lands, which we each call home. We do this to reaffirm our commitment and responsibility to improve relationships between nations, to work towards healing the wounds of colonialism, and to improve our own understanding of local Indigenous Peoples and their cultures.

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Message from the CFNU

What better way is there to celebrate Canada's strength than by building on one of its most cherished institutions? Public health care remains a top priority for people across the country, regardless of where they live. Yet too often, investments in health care are framed narrowly as a fiscal burden rather than a catalyst for growth. This second paper in the Canadian Federation of Nurses Unions' (CFNU) series on the economic value of health care funding seeks to challenge that assumption directly.

The first paper in this series, *The Economic Benefits of Canada's Health Care System* by economist Dr. Jim Stanford, articulates how public health care sustains and supports economic growth. This study moves from principle to measurement. Drawing on economic modelling conducted by Robin Somerville, it quantifies the economic impacts of increased public sector health spending in Canada.

> Investing in public health care is not a trade-off against economic performance; it is a strategy for strengthening it.

This analysis is particularly timely. Canada faces a turbulent and evolving economic landscape shaped by global instability and domestic pressures. In this context, policy tools that are both effective and relatively risk-free are especially valuable. Public sector health spending represents one such tool. We know that protecting and enhancing our public health care system has strong public support and will help sustain our economy over the long term. By grounding the argument in empirical evidence, this paper reinforces and extends the central conclusion of this series: investing in public health care is not a trade-off against economic performance; it is a strategy for strengthening it.

Executive summary

It is all too apparent that we are living in turbulent times. With new US tariffs, and frequent threats of higher tariffs to come, Canada needs to build "an economy that is sovereign, sustainable and inclusive." (Dr. Jim Stanford, *The Economic Benefits of Canada's Health Care System*)

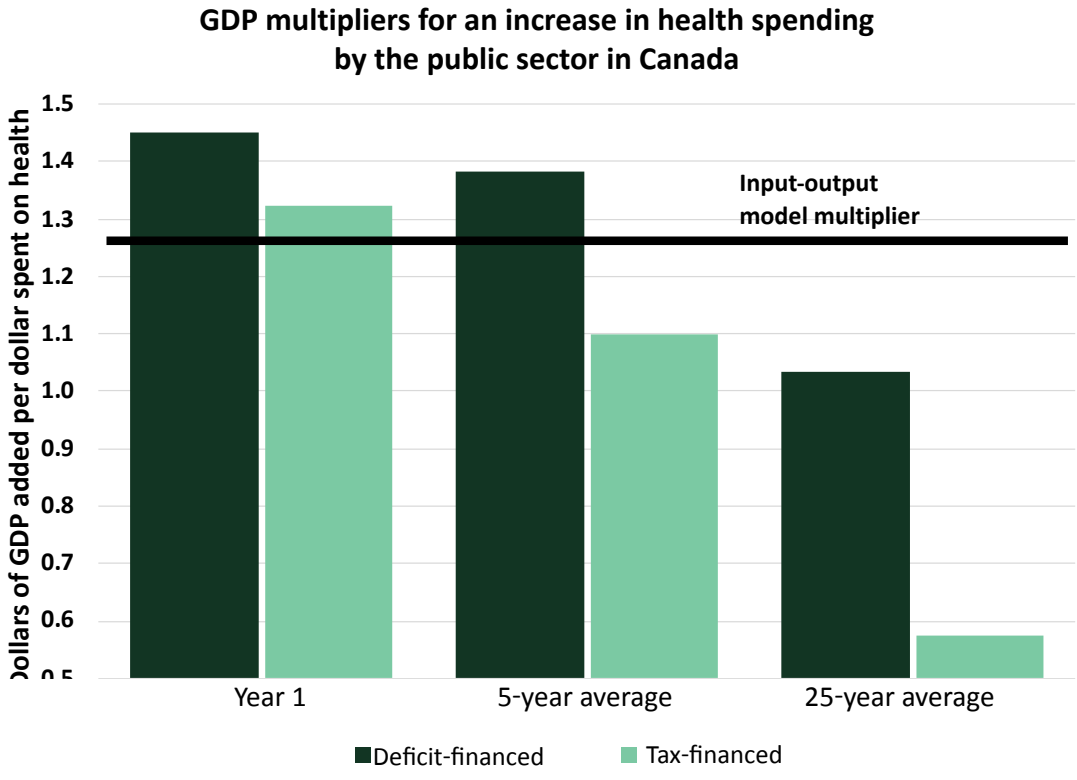
This study quantifies the potential for Canada's public health care system to weather these threats and to build a stronger economy for all people in Canada. The potential benefits are assessed using two economic models and estimates the benefits of increased health spending by the public sector on measures such as GDP, employment, and government revenues and deficits. The two models used are (i) an input-output model constructed using Statistics Canada's 2022 supply-use tables for Canada and (ii) the QEDinc Canadian Modelling System (CMS)[1], a dynamic stochastic general equilibrium macroeconometric model.

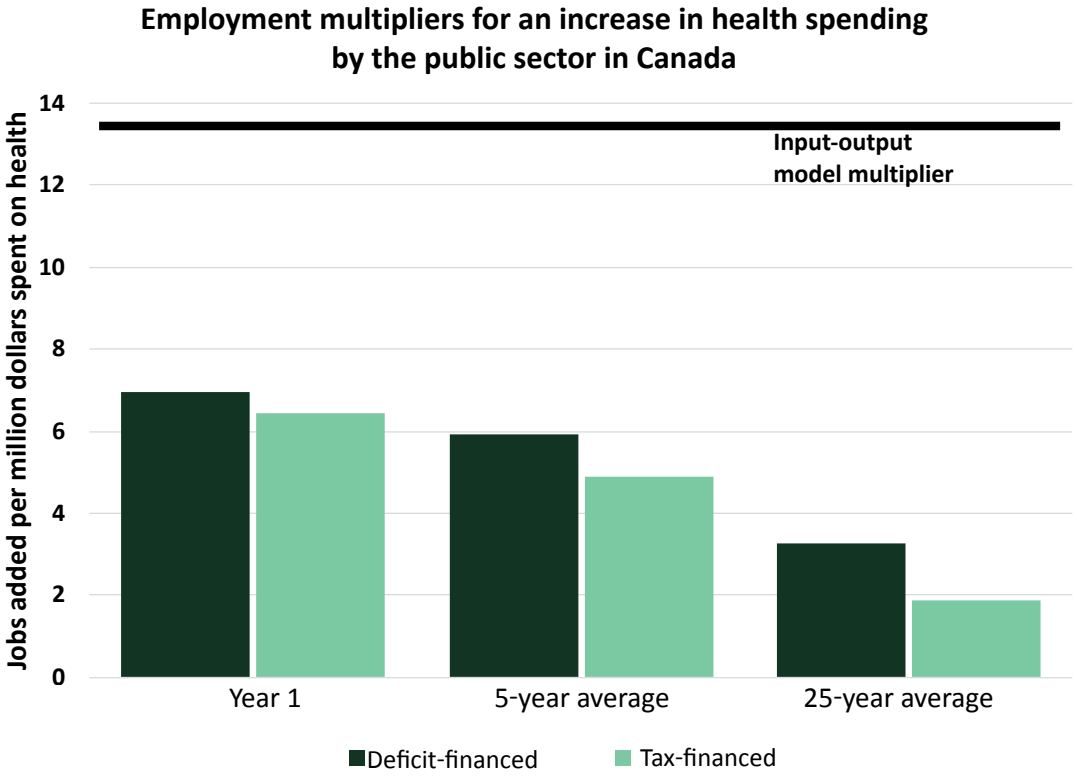
Input-output model results indicated that there is little material difference arising from health spending by the public or the private sectors. If anything, the benefit arising from spending by the public sector is marginally higher than that from the private sector.

Results from the CMS are developed under two maintained hypotheses. The first of these hypotheses is that the increase in public spending is not accompanied by a direct increase in taxes or other government revenue measures (deficit-financed scenario). The second is that the increase in spending is matched by an increase in taxes (tax-financed scenario). The choice of taxes is material and can affect the outcome as some taxes impose a higher cost on the economy. This study assumes an increase in federal personal income taxes to pay for the initial increase in health spending by the federal government.

Quantitative Economic Decisions, Inc. QEDinc Canadian Modelling System (CMS). http://qedinc.ca/products/

Figure 1


GDP multipliers for an increase in health spending by the public sector in Canada
Dollars of GDP added per dollar spent on health
1.5
1.4
1.3
1.2
1.1
1.0
0.9
0.8
0.7
0.6
Input-output model multiplier
Year 1
5-year average
25-year average
Deficit-financed
Tax-financed

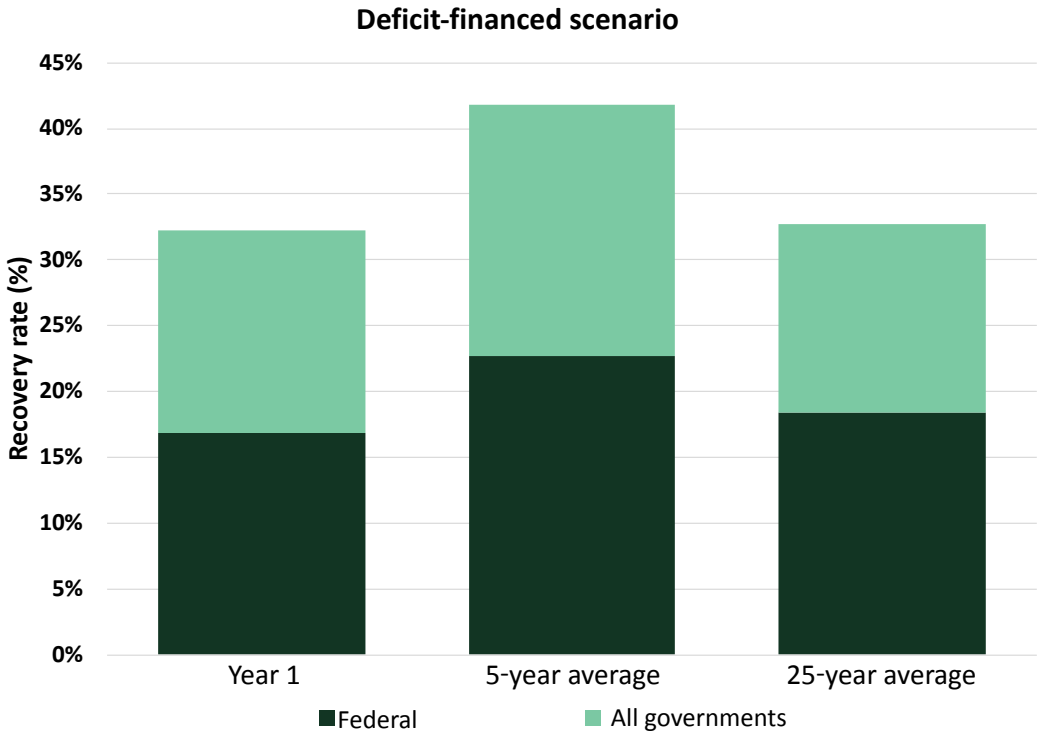

Employment multipliers for an increase in health spending by the public sector in Canada
Jobs added per million dollars spent on health
14
12
10
8
6
4
2
0
Input-output model multiplier
Year 1
5-year average
25-year average
Deficit-financed
Tax-financed

The input-output model estimated that a dollar of public spending on health raises GDP by $1.27 and supports 13.7 jobs per million dollars spent. The CMS yields a slightly higher GDP multiplier in the near term (first year) – between $1.32 and $1.45 – but this falls to between $0.57 and $1.03 in the long run (25-year average). The CMS estimates about half the impact on employment, compared to the input-output model with between 6.4 and 7.4 jobs per million dollars spent in the near term to between just 1.9 and 3.3 jobs per million in the long run (Figure 1).

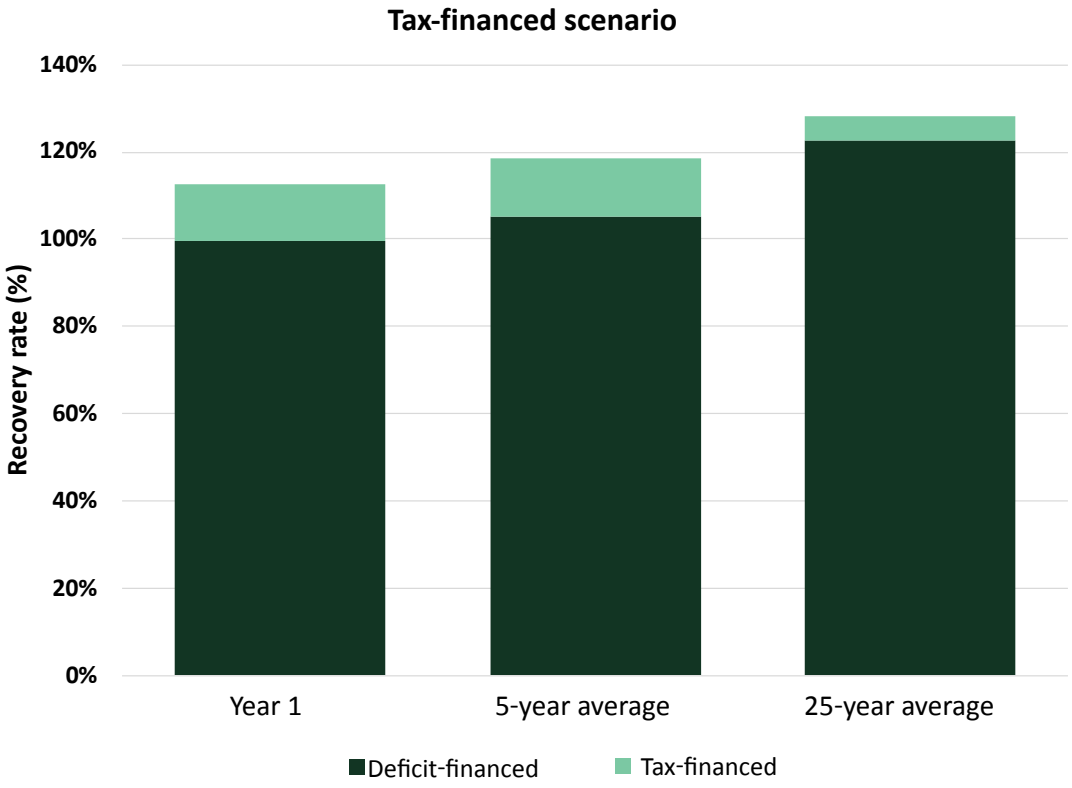
A 1% increase in public sector health spending represents 0.11% of the national economy in the first year and adds between 0.15% and 0.16% to national GDP and 0.09% to employment in that first year. Over the first 5 years of a 1% increase in health spending, between $15.5 and $19.5 billion in real GDP (measured in 2025 dollars) and 69,000 to 83,000 years of work are added to the Canadian economy, with the lower numbers associated with the tax-financed scenario and the higher ones with the deficit-financed scenario. Analysis indicates that these results would rise proportionally with higher levels of health spending.

This study assumes that the full increase in health spending is borne by the federal government and, in the tax-financed scenario, federal personal income taxes are raised to pay for it. However, in both scenarios, provincial and territorial government revenues rise leaving them with net fiscal gains from the federal government's increase in health spending (see Figure 2). If the cost of higher health spending was borne by all governments, the fiscal drag on the federal government could be reduced while leaving provincial governments' fiscal positions largely unchanged. This could, in the tax-financed scenario, further increase the economic benefits by reducing the required increase in personal income taxes.

Figure 2: Government revenue recovery rate for an increase in health spending by the public sector in Canada[1]



[1] A revenue recovery rate measures the share of new public sector health spending recovered through higher government revenues.



Although financing increased health spending by running ongoing deficits yields higher economic benefits, it is a challenging policy option in an era with so many competing priorities for public funds. Quality health care provides both private and societal benefits, so while the argument for public funding can be made, so too can an argument for personal responsibility. This personal responsibility takes the form of shouldering some of the cost of an increase in public spending on health care through higher taxes. As shown in Figure 2, the required increase in federal taxes could be reduced if the fiscal benefits to other levels of government are considered, which, in turn, would raise the economic benefits.

While it was beyond the scope of this study to model health benefits and their impact on economic performance, theoretically, the cost borne by taxpayers should be discounted by the long-term economic benefits arising from improved population health. This recognizes that health spending is an investment in Canada's human capital. The quantification of these health benefits to the labour force would augment the positive impacts generated from health spending by the public sector presented in this study and represent an important avenue for future research.

In conclusion, the benefits arising from an increase in public spending on health are significant and should be part of a balanced economic strategy. Enhanced public spending on health is a risk-free way to support Canada's economy in this turbulent period since health care is largely insulated from foreign factors. The estimates of the benefits presented in this study are also conservative, and when improved health outcomes are added, the overall benefits of enhanced public spending on health would be greater.

Health spending impacts on provinces and territories

This section reviews the impacts by province and territory of a permanent 1% increase in health spending by the federal government. The increase in federal spending on health is assumed to be distributed equally on a per capita basis across provinces and territories. The analysis reviews real GDP, employment and per capita output by province and territory.

Impact by province and territory: real GDP

Table 1 provides a breakdown of the increase in real GDP for each province and territory. All jurisdictions benefit from the increase in health expenditure, although the impacts are strongly influenced by the size of that jurisdiction. Ontario accounts for about 31% of the increase in GDP in the short term, but this rises to 33% in the long run. British Columbia and Quebec also increase their share of the increase in GDP over the long run as these provinces benefit from upstream activity through sales to the health sector.

Table 1: Impact by province and territory: real GDP

Change from no-increase scenario in millions of 2025 dollars	Deficit-financed scenario			Tax-financed scenario		
	Year 1	5-year avg	25-year avg	Year 1	5-year avg	25-year avg
Canada	4,062	3,896	2,740	3,706	3,092	1,524
British Columbia	544	526	417	490	405	221
Alberta	802	738	451	746	621	277
Saskatchewan	212	199	110	200	171	66
Manitoba	201	197	130	188	168	85
Ontario	1,284	1,266	920	1,165	979	511
Quebec	773	740	534	691	560	262
New Brunswick	64	57	59	57	43	32
Nova Scotia	69	68	53	63	53	26
Prince Edward Island	12	11	8	10	8	3
Newfoundland and Labrador	80	70	39	74	59	24
Yukon	3	3	2	3	2	1
Northwest Territories	3	2	1	2	2	0
Nunavut	5	5	2	5	4	1

Source: QEDinc Canadian Modelling System

Impact by province and territory: employment

The impact on employment by province and territory is shown in Table 2. Like real GDP, the distribution of impacts across jurisdictions is determined by their size. Smaller provinces tend to have a larger share of the increase in employment from higher health spending than their share of the increase in GDP and to have that increase in their share of employment rise over the long run.

Table 2: Impact by province and territory: employment

Change from no-increase scenario in millions of 2025 dollars	Deficit-financed scenario			Tax-financed scenario		
	Year 1	5-year avg	25-year avg	Year 1	5-year avg	25-year avg
Canada	19.5	16.6	8.6	18.1	13.8	5.0
British Columbia	2.4	2.0	1.0	2.2	1.6	0.4
Alberta	3.5	3.2	1.7	3.3	2.8	1.3
Saskatchewan	1.1	1.0	0.5	1.0	0.9	0.4
Manitoba	1.4	1.2	0.8	1.3	1.1	0.6
Ontario	5.7	4.8	2.3	5.2	3.7	0.9
Quebec	4.1	3.4	1.8	3.8	2.8	0.9
New Brunswick	0.4	0.3	0.2	0.3	0.3	0.1
Nova Scotia	0.4	0.4	0.2	0.4	0.3	0.1
Prince Edward Island	0.1	0.1	0.0	0.1	0.1	0.0
Newfoundland and Labrador	0.4	0.4	0.2	0.4	0.3	0.1
Yukon	0.0	0.0	0.0	0.0	0.0	0.0
Northwest Territories	0.0	0.0	0.0	0.0	0.0	0.0
Nunavut	0.0	0.0	0.0	0.0	0.0	0.0

Source: QEDinc Canadian Modelling System

Impact by province and territory: real GDP per capita

Table 3 displays the impact of increased health spending on real GDP per capita for each province and territory. In the first year, the increase in health spending adds nearly $100 to real GDP nationally when the spending is financed through higher deficits, but this impact is about 10% lower when it is financed through higher taxes. Different per capita impacts across the country arise from differences in the economic structure of each province and territory, their trading relationships, interprovincial migration, and by policy design. Both the maximum and minimum impacts on real GDP per capita across provinces and territories fall over time both in absolute terms and also relative to the national impact. Saskatchewan enjoys the highest increase in per capita income, followed by Newfoundland and Labrador, while the lowest increase is experienced in the Northwest Territories.

Table 3: Impact by province and territory: real GDP per capita

	Deficit-financed scenario			Tax-financed scenario		
Change from no-increase scenario in millions of 2025 dollars	Year 1	5-year avg	25-year avg	Year 1	5-year avg	25-year avg
Canada	97	92	61	88	73	34
British Columbia	106	99	68	95	76	36
Alberta	140	127	72	130	106	44
Saskatchewan	164	149	73	155	128	44
Manitoba	131	126	76	123	107	50
Ontario	79	77	55	71	59	31
Quebec	85	81	57	76	61	28
New Brunswick	74	65	68	65	50	37
Nova Scotia	63	62	50	57	49	24
Prince Edward Island	63	57	40	53	39	16
Newfoundland and Labrador	145	127	71	134	108	43
Yukon	63	56	34	54	39	10
Northwest Territories	58	51	24	51	36	6
Nunavut	123	105	35	113	84	12

Source: QEDinc Canadian Modelling System

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