The private health insurance mess

ABC *Unleashed* 15 Feb 2008

Otto Von Bismark warned that laws are like sausages: it is better that we do not see how they are made.

Fifty years ago Charles Lindblom, Professor of Political Science and Economics at Yale, took us inside the sausage factory, revealing that public policy comes about through a process of 'muddling through'. Policy makers respond to immediate problems and develop patches to fix them, but they rarely go back to first principles.

So it is with health policy. For at least sixty years, three Labor and three Coalition governments have muddled through.

Sometimes 'muddling through' is an acknowledgement of the power of those who may block fundamental policy change. Labor governments recall the struggles between 1946 and 1949, when the Chifley government tried to introduce a national health system.

Although the government had the authority of a national referendum supporting its proposal, a vehement campaign, culminating in a successful High Court challenge by the British Medical Association, saw the Government retreat.

Similarly, Coalition governments, while not being disposed to universal arrangements, have acknowledged the political popularity of Medicare and have never gone so far as to demolish it entirely.

But even when fundamental change is not blocked by pressure politics, muddling through remains the most common practice in policy development.

And in Australia the outcome of our sixty years of muddling through is a mess, rather than a system.

The public health mess

There is fragmentation of administrative arrangements, with states responsible for public hospitals, the Commonwealth responsible for non-hospital medical and pharmaceutical programs, and with private hospitals attached to a heavily subsidised private insurance industry.

Even within the Commonwealth there is no significant integration of its two main programs – the Pharmaceutical Benefits Scheme and Medicare.

There is no coherent policy – no set of principles binding our health care arrangements together.

In places we find hints of universal publicly-funded insurance, as with non-means-tested free public hospitals and some bulk-billing clinics. There are elements of 'charity' medicine, as with the means-tested co-payments for pharmaceutical benefits.

There are safety nets in some programs, but they are inconsistent: for example the safety nets for medical benefits operate on an individual basis while those for pharmaceutical benefits operate on a family basis.

Bits of socialism, bits of markets, bits of paternalism, bits of public provision, bits of private provision.

The private health mess

The strangest policy intervention has been the former Coalition government's support for private health insurance. One may expect the Coalition to be in favour of self-reliance and market approaches to health care. In its support for private insurance, however, it has created a bureaucratic monster, and has actually discouraged self-reliance.

The private insurance subsidies are at an absurd level.

Because of the 30 per cent rebate and the one per cent tax concession for high income earners, anyone with an income above $70,000 is more than subsidised for the cost of private insurance. (Imagine if, in the days of high manufacturing assistance, higher income earners were given a free Holden and an additional cash payment proportional to their income!).

And these subsidies are denied to those truly self-reliant people who pay for their dental care and private hospitalisation from their own resources; in fact they often have to pay more for hospital care than is paid by private insurers. Another consequence of the subsidies is that private hospitals now sit apart from public hospitals.

Free for all

It is possible to make a case for an entirely free, tax-funded system of health care.

The argument rests primarily on equity, particularly as poor health and poverty are related. Some argue that there is intrinsic merit in sharing, presenting shared health care as a 'solidarity good', which helps hold a society together.

Then there are fiscal pragmatists, who warn that if there are financial barriers to gaining access to health care, people will not seek attention until they are really unwell, by which time any necessary care will be very expensive and probably borne by the public sector; it is better, therefore, to make it all free from the outset

Fend for yourself

It is also possible to make a case for more self-reliance in health care.

Our society is much more prosperous than it was in the post-war years when countries were developing free systems.

Also, we are more aware of our lifestyle choices.

There is a case for requiring those who can afford to contribute to paying for health care to do so, up to a limit, so that they are making market choices using their own resources and without the distortion of insurance. Past that limit, national insurance cuts in.

Even Sweden, which we tend to regard as the epitome of the welfare state, has such an arrangement. A universal system is not necessarily a free system: 'universalism' simply means we all share the same services, even if some pay more than others.

The system must change

No one, however, could make a coherent case for Australia's present set of arrangements for delivering and funding health care.

By no reasonable ideology is it possible to find a role for private insurance, for it has all the distortions of public insurance (in terms of providing services which are free at the point of delivery) and none of the benefits of public insurance (in terms of equity, administrative simplicity, and capacity to direct resource allocation).

There can still be a thriving private sector delivering health care without private insurance.

The notion that the alternative to private insurance is 'socialised medicine' is misleading, in that it conflates funding and delivery. Whether funding is from governments or individuals, there is plenty of room for the private sector.

We now have an opportunity for a newly-elected government to develop a coherent health policy. Writing on *Unleashed* earlier this year, Trevor Cook reminds us that 'Policy brings together values, objectives, ideas, proposals'. That's real policy development.

It involves engaging with the community on the level of values and principles, rather than muddling through with patches in response to immediate problems.

Labor has a sound record in basic policy reform: its time in office from 1983 to 1996 provides examples such as tariff reductions, financial market deregulation and labour market reform.

Developing a coherent health policy should not prove too difficult.