Inquiry into Private Health Insurance Amendment Bill 2004

Introduction

This is a short submission, but it's based on many years of research and publication on health funding.

The nature of the inquiry – the paucity of public notice, and the use of a selected notification list (designed to elicit a supportive response?) – precludes independent researchers from making a detailed response.

This submission is made from a non-ideological perspective – unless one could call a preference for efficient resource allocation an "ideology'. Within a "left" ideology there is a case for a universal, tax-funded, free health system. Within a "right" ideology there is a case for more reliance on individual responsibility and the discipline of market signals. Private health insurance, however, has the moral hazard of free provision without the strong control associated with single national insurance systems. There is no justification for its support from any responsible political or economic perspective.

The need for evaluation

When the newly-elected Coalition Government introduced its programs of support for private health insurance in 1997 and 1999 several independent economists warned the Government that support for private health insurance was unsound public policy by any normative standards. In particular:

> Contrary to the stated aims, it would draw resources from public hospitals, thus not relieving pressure on the public sector. When real resources are constrained extra funding, private or public, does not create new resources.
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> Much of the assistance would leak to administration, ancillary cover and fee escalation.
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> It would contribute to inflation in health care costs.
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> It would contribute to misallocation of health care resources.
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> It would continue to support a high cost bureaucracy.
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> It would be inequitable for those self-reliant people who use private hospitals without dependence on insurance.
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> It would not overcome the moral hazard of service provision which is "free" at the point of delivery.
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> By encouraging people to buy out of a shared system, it would undermine the norm of mutual obligation which has underpinned Medicare.
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> The measures to support private insurance were ill-considered – in particular the one percent tax incentive for higher income earners, which effectively results in a negative price for those on very high incomes.

Experience over the period since 1999 demonstrates that these predictions were valid. Yet, the Commonwealth plans to press on with a further subsidy to this industry without having regard to this experience.

The Senate should reject this extension of support for the private health insurance industry. Rather, it should ask the Government to initiate a thorough review of the effectiveness of these policies to date, with the following issues to be researched:

> Costing (both budgetary and economy-wide costing) of alternatives to support for private health insurance. Alternatives should include direct support for private hospitals.
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> The extent to which private health insurance drives inflation in health care costs.
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> The moral hazard and subsequent resource misallocation associated with insurance (public and private).
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> The equity effects on those who choose not to hold private insurance but who choose to use private hospitals.

Available evidence shows that cost control, equity and efficient resource allocation can be achieved through a single national insurer, as introduced by successive Labor Governments.

Given that the Coalition Government has a stated commitment to self reliance and use of market forces, it would be consistent with this ideology if more market-based solutions could be considered, such as required uninsurable co-payments (with safety nets) and incentives for people to save for their own health care contingencies.

Private health insurance, however, is a means of buying out of the discipline of market forces and of encouraging corporate dependence – which in its effects is no different to government dependence. The nanny corporation has all the drawbacks of the nanny state, without its benefits of democratic accountability, equity through the tax system, administrative simplicity and responsible cost control.

The Coalition, understandably, is committed to choice – but there is little to choose between highly regulated look-alike financial intermediaries. In health care meaningful choice relates to choice of service provider, and choice between different methods of care. Indeed, a system which channels choice towards particular types of private service provider tends to constrain choice.

If the Coalition is sincere about its commitments to self-reliance and the use of the discipline of market forces, it would not be supporting private health insurance. Rather it would be supporting a judicious mixture of market forces, price control where markets fail, and safety nets for those with limited means or high needs.

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December 2004