

## THE AUSTRALIAN

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# Political consensus needed to reform healthcare

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**THE nation's attention is riveted on terrorism, but ultimately, only domestic prosperity can underpin our national security.**

And with Australian governments' health expenditure rising from 20 per cent of tax revenues in 2000-01 to 26 per cent this year, few challenges are as pressing as placing health spending on a sustainable basis.

Yesterday's decision to push the button on the sale of Medibank Private could be a milestone in that respect.

However, enhancing the efficiency of our health system will require other changes that redefine the role of private health insurance, ensure all Australians have access to affordable PHI and improve the regulatory framework. And towering above all that, it will require the political courage to articulate an overall strategy for healthcare reform.

Our current arrangements are certainly unusual by international standards. In most countries, private health insurance is either a supplement to public provision, covering services excluded from the public system, or a comprehensive alternative to it. Increasingly, it is the comprehensive approach that prevails, in "competitive social insurance" schemes that give all consumers a choice of insurer, while subsidising premiums for consumers with low incomes or costly medical conditions.

As well as harnessing the power of competition, these schemes, by making insurers the primary bearers of cost risk, encourage insurers to focus on maintaining health as much as on curing illness, while involving them in the full range of health services they need to do so.

At the same time, targeting subsidies directly to vulnerable consumers, instead of funding the system as a whole, reduces the tax burden and ensures those consumers who can afford to pay, do, promoting equity and fiscal sustainability.

That cannot be said about our system. In theory, Medicare provides all Australians with comprehensive, "free" health insurance. But we also deploy a broad range of inducements to drive people into PHI, including the PHI rebate, the Medicare Levy Surcharge and the lifetime cover arrangements. Somewhat paradoxically, households are therefore first taxed to fund public insurance and then subsidised not to use it.

However convoluted these arrangements may be, they have been effective, with the share of the population holding PHI rising from a low of 30 per cent in 1998, when the health insurers risked collapse, to just over 47 per cent today. But problems abound.

To begin with, poorer households, who have little option but to rely on the public system, are denied competition and choice. At the same time, nearly half the population is now insured twice: once in a supposedly all-encompassing public scheme, and again in a private scheme that funds services the public scheme is also intended to provide.

But private insurance only covers a fraction of the health services Australians consume. So while the

public system subsidises services for people who could well afford to pay their own way, private insurers lack both the incentive and ability to manage their insureds' healthcare needs as a whole. Particularly for the growing numbers with chronic conditions that require ongoing monitoring, these coverage gaps lead to unnecessary (and costly) illness.

To make matters worse, partial coverage and duplicative insurance distort demand, including by inducing insured consumers to overuse hospital services, which are doubly insured, while making too little use of less-insured services (such as prevention) which might yield better value.

And with little or no transparency about the full costs of care, governments are under incessant pressures to increase spending.

Untangling this mess is, as Sherlock Holmes would say, a three pipe problem. But the PHI market is at last well placed to be at the heart of the solution. Twenty years ago, it was organised on state lines, with myriad friendly societies that struggled to even manage hospital cover; now, well resourced firms such as Medibank Private, BUPA and Australian Unity compete nationally to supply as broad an offering as regulation permits.

That should set the stage for moving to a structure in which all consumers are required to choose among competing insurers, each covering a comprehensive set of health services, with direct subsidies for those consumers who need them.

But experience in The Netherlands, Germany, Switzerland and Israel, which have all successfully adopted this approach, highlights the complexities.

In part, those complexities are inherent in markets for healthcare, where competition has to be carefully regulated if it is to work well. And with so much at stake, any transition must be gradual, as the difficulties created by the rushed implementation of "Obamacare" have graphically shown. As well as raising many thorny issues of sequencing, that makes it crucial that reform draws on a broad political consensus which can sustain a necessarily prolonged process of change.

Unfortunately, that consensus is as elusive as ever. Having appointed a National Health and Hospitals Reform Commission, Labor simply ignored its major long-term recommendation, which would have initiated the transition outlined above. And despite Paul Howes' recognition that "the reasons for having Medibank Private as a government-controlled entity aren't there", Bill Shorten has descended into the kneejerk opposition to the sale Howes specifically denounced.

Hanlon's razor springs to mind: never attribute to malice that which is adequately explained by stupidity. But Labor's lack of any credible means of ensuring its promises are affordable doesn't absolve the government from responsibility for developing a healthcare strategy and explaining its vision of the future of PHI. So far, however, it has simply resiled from the previous government's hospital funding agreement without announcing any alternative framework for health policy.

Now is the time to do so. After all, greater certainty will bolster the sale. And while the current structure has delivered good health outcomes, every day makes its difficulties more obvious, urgent and acute. The government needs to deal with them before our health system finds itself on life support.

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