

Are Private Health Subsidies Worth It?

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Is there some special reason the private health insurance industry is worthy of such robust government support? Ian McAuley and John Menadue on why it doesn't add up.

When an industry has become dependent on a subsidy, it uses every means to justify its continuation, exaggerating the consequences if it is withdrawn. Political parties join the bandwagon, and governments, whatever their ideology, feel compelled to go on providing subsidies.

We're not referring to Alcoa, Toyota or GMH. There is at least some media exposure of subsidies to the aluminium and car industries, and there is some questioning of manufacturing assistance in both the ALP and the Coalition.

Rather, it's the private health insurance industry, which, for all the sound and fury about the means-testing of the rebate for high income earners, has once again escaped any serious scrutiny of its economic contribution and its tax-funded support — support which costs \$4 billion a year, even after the modest trimming associated with means testing.

The justification for means-testing the rebate had two planks. One was budgetary — specifically the supposed need to achieve a surplus next financial year. The other was about equity — it was yet another small step in unwinding the legacy of the Howard government's middle class welfare, which has been sapping our capacity to use public revenue for economically important government services.

While some in the Opposition made claims of an exodus from private insurance, the Government itself was at pains to point out that its effects would be modest — any withdrawal of membership would be overshadowed by the ongoing strong growth of private health insurance membership. This view was supported by the Treasury, by independent economists, and even by industry spokespeople.

The underlying and unquestioned political assumption is that there is something of value in private health insurance, and that it is worthy of ongoing support. Tony Abbott put it clearly when he said on commercial radio "Private health insurance is an article of faith for the Coalition; private health insurance is in our DNA". It is, as theologians may say, *de fide* — as an article of faith it is beyond questioning. He was speaking for his own party, but he may well have been speaking for the Labor Government.

Health economists, however, do question its value, on both equity and efficiency grounds, and it fails on both counts.

If its purpose is to fund private hospitals, there are better ways of doing so without churning funds through high-cost financial institutions. If its purpose is to compensate those who don't draw on public health programs, it is a very indirect means, and it leaves unsupported those who take the path of self-reliance and pay for their own health care without relying on private insurance.

If its purpose is to relieve pressure on public hospitals, it has failed abysmally, for while there has been a shift in patients, there has also been a shift in resources from public to private hospitals.

If its purpose is to save budgetary outlays, it may achieve that in the short-term, but in reality it simply substitutes official taxes (with their safeguards of accountability, equity and cost-control) with more opaque privatised taxes.

Research shows that those countries which rely on private insurance to fund health care get no better health outcomes, but they spend much more than those countries which rely on some combination of the power of a single national insurer and market competition, without the moral hazard of private insurance. These shortcomings are explained, in more depth, in a paper we wrote last month and which is published by the Centre for Policy Development.

In spite of these shortcomings, the industry and its supporters still unashamedly call for its further support. Even Alan Mitchell, the normally anti-protectionist editor of the *Financial Review*, wrote in support of the idea of "Medicare Select", a scheme which would see all or most health care funds, collected through the tax system, churned through private insurers, with no apparent purpose other than to give an ongoing and more entrenched role for private insurers. It was an idea dreamt up by the Rudd government's National Health and Hospital Reform Commission, and sensibly dismissed.

We need to move from "an article of faith" thinking about private health insurance to a serious questioning of its costs and benefits, and an examination of alternative means of achieving its claimed benefits, as we have done and are doing with all other industries receiving public assistance.

We rightly scrutinise our assistance to aluminium and car industries, which at least have tangible and useful products, while allowing private health insurance, which is simply a financial intermediary imposing an overhead burden on health care, to go on receiving extraordinarily high levels of subsidy which dwarf anything the managers of Alcoa, Toyota and GMH could even contemplate.