

Reforming Australia's health system, again

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The Rudd government came to power in November 2007, promising "the single biggest health reform in a quarter of a century".¹ The previous landmark reform was Medicare, which was introduced in 1984. However, its precursor, Medibank, was even more important. Medibank was a compulsory, tax-funded insurance scheme implemented by the Whitlam Labor government in 1975. It was the first scheme to guarantee all Australians access to health care, and it paved the way for Medicare almost a decade later.

While health insurance is simply a means of financing the health system, it is important because it defines the character of the system. For example, tax-funded insurance schemes function quite differently from national health services, and private insurance systems are quite different from public ones.

In this article, I examine previous attempts to resolve the tensions between the public and private health insurance schemes. I argue that previous attempts have failed because they have focused on either the public scheme or the private scheme, never the relationship between them. I suggest that if the Rudd government is to succeed in implementing the most significant health system reforms in a quarter of a century, it must find an economically sustainable way for the public and private insurance schemes to co-exist.

Major health insurance policy reforms since Medibank

The seven major structural reforms of Australia's health insurance system since Medibank was introduced in 1975 are outlined in the Box. In the following section, I describe past attempts to resolve the tensions between the public and private insurance schemes.

Attempt 1

The coalition of the Liberal Party and National Country Party consistently opposed Medibank before it was introduced. It had promised to axe it while in opposition, but to the surprise of many, the leader of the coalition in opposition, Malcolm Fraser, announced that they would maintain Medibank if they won the 1975 election.² The coalition did win, but made it clear from the start that reducing expenditure was among its highest priorities; health was an obvious target.

In 1976, the government tried to reduce expenditure by setting the public and private insurance schemes up in competition with one another. While this reform was not expected to completely resolve the budgetary problems, the government did hope that it would reduce outlays by up to \$575 million each year, and induce cost control over time.³

The anticipated benefits of the 1976 changes, however, did not materialise. People shifted from the public to private sector, which reduced budget outlays, but it also led to a 3% increase in inflation (this was because private health insurance premiums, and not the Medibank levy, were used to calculate inflation).⁴ Increases in inflation fuelled wage claims and made it more difficult for the government to achieve its broader economic goals.

ABSTRACT

- In this article, I examine all the attempts to reform Australia's health insurance system since Medibank was introduced in 1975; there have been seven, and the eighth (which goes beyond just health insurance) is now in progress. I argue that the Rudd Labor government should take heed of history's lessons and reduce the pressure for ongoing structural reform.
- The lessons of history suggest that tipping the balance too far in favour of public or private insurance is not sustainable, and nor is setting the two schemes up in competition with each other.
- The challenge that faces the Australian Government now is to design a health system that integrates the public and private insurance schemes in a way that is economically sustainable. If it does not, major structural reforms to the health system will be needed again in the near future.

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Attempt 2

Medibank III was introduced in 1978 by the coalition government as a remedy to Medibank II.² It made health insurance voluntary, and introduced a universal benefit for medical services. This reform was widely criticised because it was clearly designed to minimise the impact of private premiums on inflation and wage growth. One commentator in the *Canberra Times* claimed that "anyone in reasonable health and on a reasonable income would have to have rocks in his head to take out medical insurance now".⁴

As predicted, people moved out of private insurance and back into Medibank.⁴ Private insurance premiums began to rise, which caused even more people to shift back into Medibank. Instead of waiting for the system to correct itself by inducing cost restraint in the private sector (the assumption behind the competition strategy was that the private sector would reduce prices when it lost patronage to the public sector), in 1979, the government reformed the system once again.

Attempt 3

In 1979, the coalition government implemented Medibank IV, which abolished universal medical insurance, except for expenses over \$20.² According to the then Treasurer, John Howard, the reforms it contained were "made in the light of the government's overall budgetary strategy".² Instead of encouraging people to take up private insurance, Medibank IV caused many to drop it. The most economical option was to be uninsured, use public hospitals, and pay up-front for medical expenses.

Attempt 4

The exact reasons underpinning the coalition's decision to abolish Medibank altogether in 1981 are not yet known (they may be revealed when cabinet documents are released in 2010). It is likely that the difficulty of managing the increasingly unwieldy mixed public and private insurance system, and the complications this caused for economic policy, were important factors. Former Health

Major health insurance policy reforms since Medibank

Reform	Year	Government*	Major changes
Medibank II	1976	Fraser coalition [†]	<ul style="list-style-type: none"> Allowed people with private insurance to opt-out of Medibank and the compulsory 2.5% levy on taxable income
Medibank III	1978	Fraser coalition [†]	<ul style="list-style-type: none"> Abolished the Medibank levy Restored access to public hospitals for those without private health insurance and provided universal benefits (40% of scheduled fee) for medical services Made health insurance voluntary
Medibank IV	1979	Fraser coalition [†]	<ul style="list-style-type: none"> Abolished universal medical insurance except for expenses in excess of \$20
Return to voluntary private health insurance	1981	Fraser coalition [†]	<ul style="list-style-type: none"> Medibank abolished Made government benefit of 30% of scheduled fee available only to those with private health insurance Made a tax rebate of 32% available when private insurance was purchased
Medicare	1984	Hawke Labor [‡]	<ul style="list-style-type: none"> Re-introduced universal, tax-funded insurance
Subsidies to private health insurance reduced	1984–1996	Hawke–Keating Labor [‡]	<ul style="list-style-type: none"> Removed tax rebates and public subsidies for private health insurance and private hospitals Introduced contracts between private health insurance funds and hospitals, and between funds and doctors in order to reduce patients' out-of-pocket payments
Subsidies for private health insurance increased	1999–2007	Howard coalition [†]	<ul style="list-style-type: none"> Increased Medicare levy for higher income earners without insurance Introduced subsidy for private health insurance premiums Enabled funds to charge higher premiums to people first taking out private health insurance after age 30 Introduced a Medicare safety net that subsidised patient out-of-pocket expenses above threshold amount Enabled private health insurance funds to cover additional out of hospital services

* Prime Minister and governing political party or parties. † Liberal Party of Australia and National Country Party. ‡ Australian Labor Party. ◆

Minister, Michael MacKellar, explained that, from 1975 onwards, it became evident that “whilst we had it [Medibank] there, it was only going to add to the confusion, so the best thing was to bite the bullet and get rid of it” (Michael MacKellar, Former Health Minister, personal communication).

Attempt 5

A partial solution to the problem of Australia's mixed insurance system came when the Hawke Labor government was elected in 1983. Restoring economic growth was the government's top priority. It hoped that making structural changes to the domestic economy and opening it up to international competition would make Australia more productive. The government pinned its hopes of success on the Accord it had negotiated with unions and employers while in opposition. The Accord was designed to soften the blow of Labor's radical economic reforms by bringing together egalitarian social policies and economic policies.⁵

The key to the Accord's success was the “social wage”. In exchange for workers' cooperation with structural economic reforms, the Accord promised non-wage benefits such as industrial award-based superannuation, and greater public investment in public housing, unemployment and childcare.⁶

Medicare was the most important non-wage benefit in the Accord. It was popular with the unions (they had been campaigning for the reintroduction of universal insurance since 1976), would be quick to implement, immediately reduce out-of-pocket health costs, and remedy the problem for the government of citizens not being insured. Medicare also offered the government a sizeable reduction in inflation, which promised to temporarily slow wage growth.

The introduction of Medicare as part of the Accord ended the constant pressure for health insurance policy reform in Australia, at least for a while. It restored universal access to care and was affordable because it was introduced as part of major structural economic reforms. Unlike the coalition government, Labor found a way of dealing with two of the challenges that Medibank created — the need to ensure universal access to health insurance, and to sustain it at a cost the economy could sustain. The budgetary costs of Medicare seemed tolerable in light of the short-term and longer-term economic benefits anticipated from the Accord. However, like the coalition government, Labor did not find a way to make the public and private insurance schemes function together effectively.

Attempt 6

Private health insurance fund membership fell steadily between 1983 and 1996 as Labor progressively abolished subsidies for private insurance and private hospitals. In 1983, before Medicare was implemented, fund membership was 66%.⁷ It fell to 34% in 1996 after most of the subsidies were removed. Consequently, many funds found themselves on the brink of collapse.⁸ Before it lost power, Labor introduced changes designed to make private insurance more attractive; it realised the detrimental impact the collapse of the private sector would have on the public health system.⁹ These reforms (known as the Lawrence reforms after the health minister at the time) introduced contracts between private health insurance funds and hospitals, and between funds and doctors in order to reduce patients' out-of-pocket payments.

Attempt 7

Most of the reforms introduced by the Howard coalition government were aimed at restoring the role of the private sector in the health system. To achieve this, the government implemented: the Medicare levy surcharge in 1997 (which imposed a financial penalty on individuals and families earning above a threshold amount if they chose not to purchase private insurance); the Private Health Insurance Rebate Scheme in 1999 (which provided a tax-funded rebate on private health insurance premiums); and Lifetime Health Cover in 2000 (which required funds to set different premium levels depending on the age at which enrollees first purchased hospital insurance). Together, these policies boosted private health insurance membership rates; the latest data show that 45% of Australians are now privately insured.¹⁰

Attempt 8: the current attempt

Since coming to power in 2007, the Rudd Labor government has signalled its intention to implement major structural reforms of the health system. It established the National Health and Hospitals Reform Commission in April 2008 to provide advice on a long-term reform plan for the Australian health system; however, the Commission's terms of reference did not direct it to consider the relationship between Medicare and private health insurance.

The lessons of history

Many health policy commentators believe that health insurance policy reform in Australia between the 1960s and 1980s can be explained by the political agenda and ideological stance of successive governments.^{4,11,12} In this article, however, I argue that health insurance policy reform has been driven by a policy problem that emerged when Medibank was introduced in 1975 — it established a mixed public and private insurance scheme within which the roles of each scheme are unclear.

Medibank did not replace the voluntary private insurance scheme that had existed in Australia since the 1950s. It was layered on top of it. This means that, unlike arrangements in many other countries, Australia's private insurance scheme functions sometimes as a replacement for the public scheme (eg, in elective surgery), and sometimes as a top-up (eg, by offering a private room in hospital or choice of doctor).⁹ This lack of clarity about the role of private health insurance in the context of a compulsory, tax-financed system has created tensions between the two schemes. More importantly, it has limited the success of past reforms.

The Fraser government's attempts to set the two schemes up in competition were unsuccessful because they did not reduce expenditure or guarantee universal cover. Ultimately, the only solution it came up with was to abolish Medibank.

The Hawke government responded to strong public pressure for universal coverage by reintroducing Medicare. However, it did this at the expense of the private insurance sector, which threatened the viability of many of funds. The Howard government's solution largely involved the use of incentives to increase private health insurance membership. This revived the sector, but came at considerable budgetary cost.

Conclusion

The Rudd government now has an opportunity to reform Australia's health insurance system. The lessons of history strongly

suggest that, irrespective of other health system reforms, it needs to search for policy proposals that clarify and better integrate Australia's public and private insurance schemes. If it ignores the issue, further health system reforms will be needed in the future.

Competing interests

None identified.

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