

## Department of Health and Ageing

Mr Gary Banks, Chairman  
Productivity Commission PO Box 80  
Belconnen ACT 2616

Dear Mr Banks

I am writing regarding the Productivity Commission Review of National Competition Policy (NCP) Arrangements, in particular the application of NCP to the Australian health care system. The Department of Health and Ageing is not proposing to provide a full submission, as we are not sure of the extent or direction of the Commission's interests in the range, detail and complexity of health issues under the Terms of Reference for this Review. However, I would like to offer some general comments regarding the application of NCP to the extremely complex area of Australia's health care system and health services market.

The principles of competition can certainly be of wide benefit to the Australian economy, enhancing economic growth and bringing advantages to consumers such as lower prices, increased access through more providers, and better quality service due to pressure on providers to meet or exceed the service standards of competitors. However, a number of unique characteristics of the market for health services make market failure a particular problem and this imposes limits on the extent of competition that is considered desirable. These unique characteristics include:

- an unequal balance of power and knowledge between patients and health professionals;
- potentially irreversible and serious, even life-threatening, consequences of wrong decisions or poor quality products;
- the need to address gaps where affordable and accessible services would not otherwise be available to all consumers, such as in rural areas or for low income earners;
- an expectation that health care will be accessible to everyone on the basis of medical need, irrespective of financial resources or consumer power; and
- the need to responsibly manage uncapped publicly-funded health care programs in the face of potentially unlimited demand.

As a result of these considerations, government intervention in the health services market is more extensive than in other sectors. For example, governments provide or subsidise the cost of health services to ensure affordable access for everyone, many health professions are subject to State-administered compulsory registration requirements, and health related products are subject to

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Australian Government legislation that ensures reliable quality and safety standards.

In some cases government interventions in the public interest create market distortions and restrict entry into the market. There can also be restraining effects on the broader economy as a result of regulations to protect public health or programs to improve health care access and quality. Such impacts are, however, accepted as necessary in order to achieve an appropriate balance between the broader economic benefits of market forces and the protection of public well being.

The application of NCP in the health sector must also take account of the complexity of the Australian health care system and conflicting public policy and public benefit issues. For example, while the Australian Government is the major funder of health services, State and Territory Governments hold the majority of the regulatory powers and most health-related industrial awards are State-based.

In some cases it can be practical and beneficial to increase competition in health-related services, but in other areas regulation remains necessary. Our objective needs to be a sound balance using the least restrictive policy levers that are practical given all other constraints. The public interest test that forms part of the NCP legislation review process plays an important part in ensuring this balance.

I would be happy to provide any further information that you may require for the review. Such requests should be directed in the first instance to Mr David Webster, First Assistant Secretary of the Portfolio Strategies Division in this Department, on (02) 6289 7931.

Yours sincerely



Jane Halton  
Secretary