

**Submission to the Productivity Commission regarding the  
*Review of National Competition Policy Reforms***

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We welcome the publication of the Productivity Commission Discussion Draft on the *Review of National Competition Policy Reforms*. In particular we welcome the Commission's preliminary future reform agenda. In this brief submission we wish to address a number of issues relating to this reform agenda. Our views on these issues have been publicly presented in a number of published articles and books that are noted at the end of this submission.

**Reform in health insurance**

The Draft Report considers the importance of a coordinated approach to health care reform. We agree that such a national approach is needed but we also believe that improved economic analysis should be brought to bear on the Australian health policy debate.

Analysis of the healthcare system in Australia often fails to distinguish between the separate elements of that system. For example, the role of the government as a provider of health insurance to Australian citizens is often linked to the ownership of hospitals. Thus, Medicare funds public patients in public hospitals while those people who take out private health insurance overwhelmingly receive their services in private hospitals. In our opinion, there is no economic reason for this link. In particular there is no reason why the government as a health insurer cannot purchase health provider services from either public or private hospitals. Put simply, as an insurer, the

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government should be able to gain relevant health services from which ever hospitals can provide those services most efficiently.

Because the Australian health system artificially links public health insurance and public health provision, the health insurance system has been distorted in a number of ways. In particular, in the absence of any private health insurance rebate, those households who take out private health insurance effectively 'pay twice' - once through the taxation system for public insurance and then again through direct payments for private health insurance that, at least partially, overlaps with the public health insurance system. While it is sometimes argued that this double payments is desirable as it may redistribute funds from the relatively well-off who purchase private health insurance to poorer households who rely solely on public health insurance, such redistribution would best be carried out in a clear and transparent manner through the taxation system. Indeed, if we consider that the people most likely to take out private health insurance are also those most likely to require future health treatment, such as the elderly, young families and those with a history of medical problems, the current system can be seen to transfer income from the 'sick' to the 'well.' Elsewhere we have referred to such perverse transfers of funds as anti-insurance.

In our opinion, the healthcare system in Australia requires urgent and independent review and we strongly support the draft proposal presented in the Discussion Draft. However, we would suggest that the Productivity Commission add to its list of considerations the interaction between government funding, health insurance and service provision. In particular ,any review needs to carefully separate out the roles of the government as a provider of health insurance from any other role through direct provision of health services.

## **Reform in the funding of primary and secondary education**

We welcome the discussion on the Australian education system in the Discussion Draft. In our opinion, however, an area that requires significantly more attention is the funding of primary and secondary education. One issue, as noted by the Productivity Commission, is the mix of State and Federal government funding for education. At a fundamental level, Australian society needs to consider how to best fund both the public and the private school system. Primary and secondary school funding involves issues of equity of access. However such issues are also relevant for many other services provided by society, but the funding solutions for these other services often differ significantly from the approaches used in education. In our opinion these differences reflect the unique nature of School education services as a 'club good.'

Primary and secondary education services at best provided through school communities. Equity requires that access to a relevant school community should not depend on a student's background. However in the State-funded public school system this desire for equity tends to be reflected in strong limitations on school autonomy and by an absolute ban on schools charging compulsory fees to any students, even those whose families can afford to pay. In our opinion education reform needs to embrace the ability of public schools to specialise and to raise additional funding from relevant families while maintaining equity of access.

In *Finishing the job* we discuss at some length how these dual goals can be met through the use of a differential universal allowance for students to access educational institutions. In brief, the government would provide funding that would be associated with a student but that would differ depending on either that student's family's wealth or other socioeconomic characteristics. Students would then choose the schools that they wished to attend and those schools would receive the allowances associated with each student. Publicly-owned schools would be able to require that students pay

up to the maximum allowance set by the government. Thus poorer students who receive the maximum allowance would not pay any additional fees regardless of which school they attended while students who receive a smaller government allowance may be required to pay a 'top up' fee depending on their choice of school. Essentially the government would determine a student's ability to contribute to their education payments but the student would then have the choice of schools and schools would be able to differentiate themselves according to the services they offer and the top-up fees, if any, that they require. Further privately-owned schools may be able to participate in the system and become eligible for equivalent government funding to publicly-owned schools subject to equity safeguards.

We believe that an innovative approach to funding for primary and secondary education can potentially lead to significant benefits for Australian society. In our opinion issues of education funding and school flexibility are priorities for national reform over the next decade.

## **Housing and transport reform**

There are a variety of issues in both low-income housing and urban transport reform that we believe should be addressed in Australia as a matter of national priority. The details of these reforms are discussed in the references given below. In summary, we believe that income contingent loans can provide significant benefits for low income families in periods of financial stress and may ease the burden on public housing. With regards to transport, we believe that road congestion tolls in our major cities of Melbourne, Sydney and Brisbane should be introduced. The revenues from such tolls can be used to improve public transport.

## **Conclusion**

Finally we would really like to reiterate our strong support for the Productivity Commission's Discussion Draft. In our opinion we believe that

the Productivity Commission has 'got it right' on most areas of national importance. The next steps in economic reform for Australia must involve the extension competition policy principles to the key areas of health, education, housing and transport.

## **References**

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