

## Medicare and welfare “reform” – Ian McAuley

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I am here to speak about Medicare – or at least Medicare as we used to know it, and as the reformist governments which introduced universal tax-funded health insurance knew it. While Medicare is crucial to welfare, it is not a welfare program. But more on that later.

In the context of this conference it is useful to start with some observations about what we call the “US Empire”. While there have been many American military adventures, there is also a deep strain of isolationism in the US. That isolationism was formalized in the 1823 presidential statement known as the “Monroe doctrine”, which essentially said to the rest of the world “you don’t mess with us, and we won’t mess with you”.

We still see that isolationism, in a media so parochial that it makes our tabloids and television networks look like models of global engagement, and among that 93 percent of the American population who do not own a passport. I suspect we are seeing it in terms of war-weariness – most Americans don’t question the rights or wrongs of intervention in Iraq, but they will react to the small but constant string of flag-draped coffins returning home. Their military ventures in the Middle East have an isolationist aspect; they are about securing domestic interests (oil security, control over the currency, protection from terrorism), rather than the much wider colonial ventures of the European powers in the nineteenth century.

American isolationism is manifest in a domestic incapacity to understand that there are forms of democracy other than America’s model and forms of economic arrangement other than American style capitalism. For example, Americans have always had difficulty in distinguishing between democratic socialism and Soviet totalitarianism. “You are either like us or you are our enemy”.

Isolationism will probably endure; indeed it may be strengthened as Americans come to see the costs of global overreach; the simple task of dispensing with a dime store thug in Iraq has stretched their economic and military capacity.

The paradox is that isolationism has not prevented domination, driven not so much from the center as from the periphery. For countries like Australia it is a domination based not on gunboats (we supply our own gunboats); rather it is a colonization of ideas. The most blatant forms are in the popular entertainment media, but it is also evident throughout our entire society.

Emulation of US practice, as often as not, is home-grown. The non-American world has become bedazzled by the glitter of the American Century, by American triumphalism following the fall of Soviet Communism, and by American military and economic strength. At the same time the world has been happy to overlook America’s weaknesses – its inequalities which, in time, could tear the society apart, its brutal justice system, its extravagant energy use and dependence on imported oil, its fragile and decaying infrastructure, its poverty-struck schools, and its chronic trade imbalance. (If America weren’t so large it would be under the management of an IMF adjustment program.)

The non-American world has been too willing to adopt American ideas and institutions, even when these can be quite dysfunctional or destructive. To many economic élites, the adoption of American practices has served self-interests. For example, outrageously high executive

pay has been justified on the basis of “globalization”. (The word “globalization” generally means “Americanization”; it is used because “globalization” implies inevitability, whereas use of the word “Americanization” would imply some degree of choice and therefore moral responsibility.) In terms of public ideas this has occurred most strongly in English-speaking democracies; language, as the French and Japanese know, can form a first line of defence of local cultures and traditions.

Now I don’t want to deride all American values. America has provided models for other democracies to emulate, particularly our own. Constitutionally, the political principles of separation of powers and the separation of church and state enjoyed their earliest practical manifestations in America. We still have no institution as powerful and as protective as the Fifth Amendment. And the Americans beat us by more than 200 years in severing constitutional ties with a foreign monarchy.

Culturally, too, if we look behind the clutter of movies with thin plots and food chains with fat burgers, we can see something more enduring. America, particularly its Yankee heartland of ideas, is still a fount of liberal ideas; those public ideas which will eventually put an end to the current phase of crony capitalism and religious fundamentalism will most probably arise in America’s universities. But, just as India retains some unattractive features of nineteenth century Britain, we run the risk of taking on the worst of American values and embedding them in our culture.

**A**ny Australian who has stood in a supermarket checkout queue in the USA learns some basic facts about US welfare. The lady at the checkout is paying in food stamps; she is one of America’s “indigent” – a welfare recipient, a loser. “Sorry, you’ll have to take that back to the shelf”, says the worker at the checkout “you’re not allowed chocolates on food stamps”. The poor are poor because of personal failure; such people cannot even be trusted to spend their welfare money wisely.

The conservative American commentator, Charles Murray, talks about “cycles of poverty” – poor people pass their dysfunctional values and behavioural traits on to their children. The cycle cannot be broken. This myth sits alongside another very American myth – that any kid can make it. (Orwell, used the term “doublethink” to refer to one’s capacity to hold two contradictory beliefs at the same time.) The ideas that poverty may result from random misfortune, or from economic structural weaknesses, have little traction in America.

These myths are popular but strange. They’re popular because they support a public idea that poverty is inevitable; therefore there’s no sense in spending too many taxation dollars in trying to alleviate it. They’re strange, however, for most Americans, like most Australians, don’t have to look back too many generations to find the boat people among their ancestors – the economic refugees who came in leaky boats, rejects from the great wave of nineteenth century globalization. It is no wonder that Howard and Ruddock are working so hard at obliterating that memory; it’s the first step in adopting an American model of welfare.

Just as in welfare programs, so too is American health care categorized into winners and losers. Those who have made it have generous employer-funded health care programs. It is ironic, in fact, that the entrenchment of private health insurance in the USA was largely at the instigation of trade unions in the early postwar period. The old have Medicare, a taxation-funded program that is not vastly dissimilar to our own programs. And the poor – those who are unemployed, in precarious employment, in the unofficial labour force, in self-employment – well, they drop out of the system. There is a poorly funded program, Medicaid, which provides states with some very basic capacity to look after the 40 million uninsured or “indigent”, but Medicaid is truly parsimonious. If a media magnate suffers a heart attack on a golf course, there is no way he will get the same emergency treatment as a Medicaid patient.

America’s health care system is expensive, costing some 15 percent of GDP, compared with 7 to 9 percent in most other developed countries. We’re at about 9 percent of GDP, a proportion which has been rising strongly since the Howard Government decided to subsidize private health insurance. To put that difference into perspective, if Australia had America’s health care system, we would be spending another \$40 billion on health care, or about \$6000 a household – and without any improvement in health outcomes. At its top clinics, America’s health care system is the best in the world, but most Americans would be far better served by Australia’s system.

In such a generously funded system there are plenty who have immersed their snouts into the funding trough. Pharmaceutical firms, hospital companies, lawyers, consultants in health care management, financiers, health insurers and liability insurers have all done very well out of the American system.

The lesson of American experience has convinced the governments of most of the world’s democracies to centralize health care funding through single national insurance schemes, such as Australia’s Medicare. The two clearest savings are in administrative costs (our private health insurers impose a \$700 million bureaucratic overhead on the health care system), and, more important, the capacity of single national insurers to keep guard on the trough of funds.

Here, however, we are heading rapidly to an American system – a system which may have served that country tolerably well fifty years ago, but which is quite dysfunctional now. (When I described our “reforms” to an American academic, he was so bemused that he asked if we were also going to adopt an American firearms policy.) Howard and his health ministers have assured the community that they will retain Medicare, but that does not mean they have any commitment to retaining a single national insurer. The Howard vision of health services has clear US characteristics. It’s a landscape with many gated communities and the occasional poorhouse.

The transformation, which started with Graham Richardson’s proposals in 1993 (wisely blocked by Keating), has been to re-define health care as charity, rather than as a collective good. Those who can afford to should take the private insurance option, the gated community. If they are driven by a sense of mutual obligation to share their costs with all Australians, outside the gated community, then they will be slugged a one percent tax surcharge for that privilege. In fact, on introducing the surcharge, the Federal Treasurer ruled

out any preference for mutual obligation when he said it was a tax he hoped no one would pay. The message, as clear as Orwell could make it in *Animal Farm* with his “four legs good, two legs bad” metaphor, is “corporate dependence good, community dependence bad.”

The scheme has been a monumental failure even by its own criteria. It has not taken any burden off public hospitals. It has not added to the resources in the health care system; in fact, because it has attracted staff to move from the public to the private system, it has taken resources from public hospitals. And it has raised prices in the health care sector. Health economists, apart from one or two who have taken lucrative consultancies for the health insurance funds, have condemned the health insurance subsidies as irresponsible, wasteful and inequitable. (For an economic analysis of the effect of the Commonwealth policies, see my work at <http://resources.dmt.canberra.edu.au/imcauley>; you will find many other works by independent health economists drawing similar conclusions.)

But, just as the stated reasons for involvement in Iraq shift over time, so too do the stated reasons for the subsidy to the private health insurers – a subsidy which far exceeds any effective level ever granted to Australia’s manufacturers in the heyday of tariff protection. The stated reasons now are and “maintenance of the private system” and “choice”.

Almost fifty years after the death of Joseph McCarthy (of alcohol-induced cirrhosis), it is still fashionable to portray opponents of private insurance as anti private sector – as having some outdated attachment to the heavy hand of central economic planning or a North Korean vision for the Australian economy. But no serious health economist suggests that we should abandon the private system. It is the private *funding* system – a parasitic financial intermediary – that we criticize. There are many ways to fund private hospitals and private medical practitioners without having to subsidize the financial sector. When Howard introduced “lifetime community rating”, membership of health insurance rose from 30 to 45 percent, and much more funding passed through private insurance, but less than 40 percent of that increased funding makes its way to private hospitals; the rest leaks out into administration, ancillary items such as gym clubs, medical gap payments, and upgraded insurance cover. John Kenneth Galbraith uses an apt metaphor to describe indirect subsidies: if you want to feed the chicken, feed the chicken; don’t feed the horse in the hope that the chicken will pick up some of the horse droppings.

And “choice” is the last refuge of scoundrels. People may want choice of practitioner or choice of hospital, but why choice of health insurance fund – when all are offering essentially the same product, with very little price differentiation, in the same highly-regulated market? MBF, HCF, Medibank Private – it’s all much the same.

The rhetoric of “choice” is underwritten by a very American myth of individualism. It is fashionable for critics of America to describe its capitalist system as individualistic, but, in reality, advanced capitalist economies impose a drab conformity which, below the superficial glitter of brand names, would be familiar to any East German, Pole or Russian. There is little choice other than to follow the corporate life; in fact, in the USA, the health insurance system imposes a high penalty on those who choose to exercise true individualism – to enter self-employment, to risk all by writing novels or composing music, to work for a social cause. If they can get private insurance at all, it will be at a very high price – not at the price that can be negotiated by large corporations.

One area where American interests extend beyond ideas and models is in pharmaceuticals. The pharmaceutical industry is one of America’s few remaining economic success stories, and it is very well connected politically. The Bush Administration and the Republican Party in general have been heavily supported by political donations from oil and pharmaceutical firms.

The pharmaceutical industry has always been unhappy with Australia’s pharmaceutical benefits scheme (PBS). In one of the most successful and most enduring health care programs (now more than fifty years old), the Commonwealth has used its purchasing power to negotiate low prices for prescription pharmaceuticals. These prices are much lower than the prices those same firms receive in the US and many other foreign markets. The PBS has been the envy of other countries.

Lest we believe we are somehow exploiting the unfortunate pharmaceutical firms, it is worth remembering that governments grant them generous patent protection, which is essentially a publicly protected monopoly, and that the manufacturing cost of drugs is usually very low. Most of the costs are incurred in research and development, which is almost entirely independent of the volume of drugs sold. Provided they can cover these costs in their home markets, it is profitable for them to sell in other markets at much lower prices. Also, they are some of the world’s most profitable firms, and they are already heavily subsidized by publicly-funded basic research.

The pharmaceutical firms are using the US/Australia free trade negotiations as a means to break the power of the PBS to set prices; they want Australian prices to come up to American prices. This would be devastating for the PBS. Even if we had an economically and socially responsible Commonwealth Government, it would be hard for it to meet the price demands of American pharmaceutical firms while maintaining the universality of the PBS. Also, American pricing would add significantly to Australia’s already chronic deficit on current account – that’s the deficit Costello and Howard don’t talk about.

An overlay on these specific developments is an intrinsic devaluation of the public sector. We may see that as an American development; indeed the Republican Governments of recent years see little merit in any form of public enterprise – other than the exercise of military power.

But it hasn’t always been so. Abraham Lincoln (a Republican) made an eloquent statement on the role of government when he said “The legitimate object of government is to do for a community of people, whatever they need to have done, but cannot do at all, or cannot so well do for themselves, in their separate and individual capacities”. Carved on the plinth of Washington’s Internal Revenue Service building is Oliver Wendell Holmes’ statement, “Taxes are the price we pay for a civilized society”. It was the American Government, under the leadership of Roosevelt, which brought in a postwar order of liberalism in 1944 at the Bretton Woods conference – a liberalism dedicated to the ideal of global full employment.

Lincoln’s words have been forgotten, however. The doctrine of the Howard Government is one of “private sector primacy”. If the private sector can carry out a function, then it should

do so, even if it is less efficient, more wasteful, and less just. Lincoln’s phrase “or cannot do so well for themselves” has been abandoned. This helps explain why the Howard Government doesn’t care if private health insurance is wasteful or if we are losing opportunities by under-investing in public health. If the only source of value is the private sector, then any reduction in government activity is intrinsically desirable. There is a widespread belief that the Howard Government is economically responsible, but there is nothing economically responsible about wrecking a low cost, efficient health care system.

I find it hard to blame America for this. It’s a home-grown perversity. America offers the world many models and ideals; we seem to have picked the wrong ones – and we have picked the wrong politicians. We cannot blame Bush or even the Florida Electoral Commission for our poor political choices.

**I**t is easy to find a scapegoat in a country over the waters, particularly when it is led, or misled, by a bellicose, crony capitalist and incompetent government. But perhaps we need to look closer to home for the source of our problems. We may find the enemy is us.

I confess to a certain bias. I have lived and studied in America, and find it difficult to engage with the anti-American “left”. I feel that the “left” in Australia could do a great deal, closer to home, to expose the incompetence, corruption, dishonesty and duplicity of the Howard Government. It could also do more to shake the Labor Party out of its torpor.

Australia, a hundred years ago, was a world leader in policy innovation. In some cases this remote country of four million was *the* world leader. With confidence we introduced female franchise, the basic wage, state-owned banking, and an age pension. More recently we developed innovative health programs – particularly the PBS and Medicare. For much of the twentieth century, the rest of the world looked on Australia and the Scandinavian countries for ideas on policies which combined sound social and economic outcomes.

The challenge now is to re-gain that energy and confidence.