Policy Note

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The 2014 Australian budget: An economist's reaction

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Robert Marks
The University of New South Wales, Australia

The current Australian federal government is a centre-right administration, led by Prime Minister Tony Abbott. He had based his pre-poll campaigning on promises of 'steady as she goes', so the government's first budget, delivered to parliament 6 months after the election, was unexpected, proposing to wind back welfare support and to push many expenditures (on health and education) onto the six state governments. In the months since the budget was announced, there has been a strong negative public reaction, and the government's popularity has plunged. With a divided Senate, by late 2014, it is not yet clear which of the several versions of some budget proposals will finally be enacted. The following piece was my reaction to aspects of the budget following its announcement in May 2014. I sent it to many members of the governing parties who represent New South Wales electorates:

> As are many Australians, I am concerned with the economics and equity of the budget. There is, it is true, a medium-term problem with Australia's public finances. It is not (yet) a crisis, and we still retain our AAA credit rating. But, if revenues do not pick up with increased economic activity, as previously forecast, then now will have been the time to start rebalancing, by raising the revenue (I agree with indexing the fuel excise levy with inflation) and by cutting expenditures, both current and promised (such as the Prime Minister's generous version of Paid Parental Leave[1]).
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> The expenditure cuts and revenue increases announced by the Treasurer concern me greatly. With two kids in their twenties, I am particularly worried by the six-month gap before dole payments for the young – they are caught: when not on benefits, they can't obtain tuition concessions, but if not studying and without work they are to be denied any support. Just how are they supposed to live for six months if their parents, for any reason, are unable to support them? (My children are fortunate that I could do so.) This measure seems particularly cruel. It is not enough for the Treasurer to say, 'Well, I'd have a job' when confronted with this hasty policy.

Corresponding author:
Robert Marks, School of Economics, UNSW Business School, The University of New South Wales, Sydney, NSW 2052, Australia.
Email: robert.marks@gmail.com

The $7 Medicare fee is a patient co-payment contribution of $7 for each visit to a General Practitioner or other out-of-hospital provider medical services, due to commence on 1 July, 2015.[2] It will not contribute to deficit reduction, as $5 of the $7 will go to a promised medical research foundation and will not pay for Medicare services. Research into diseases is admirable, and more support for our medical researchers is welcome, but not at the cost of our general health – this policy, by discouraging the poor, and the sick, and the elderly from seeking medical attention, will, in the long run, contribute to worse health and, ironically, higher costs, since prevention is cheaper than cure, especially if the General Practitioner does the prevention, but the cure occurs in hospital. This policy is callous and ineffective.

Moreover, if the $7 is meant to make Medicare more sustainable, the only conclusion is that the government is actively planning for Australians to go to the doctor less often, since only $2 extra per consultation goes to the doctor. Instead, it seems ideological – 'they don't value what's free' – forgetting that we all contribute to Medicare through the income tax levy. If the idea was to reduce the demand for doctors' services, then where is the input from the medical economists, experts who have spent their careers examining these policy issues? As for the $7 charge for pathology tests and other follow-ups suggested by the doctor, this policy makes no sense: these services are not like the Treasurer's beer and cigarettes; the uninformed patient must follow his or her doctor's advice. Prohibiting bulk-billing of these items is purely ideological, and has no impact on the sustainability of Medicare (let alone the budget deficit) unless the idea is to discourage their use.

Australia has one of the longest average life spans on earth, partly achieved through forty years of Medibank and Medicare, our universal health insurance scheme. No one doubts that health care costs are rising, not, in general because people are less healthy or living longer, but because the technology arising from medical research is increasingly expensive: compare X-rays with CT scans, with Nuclear Magnetic Resonance, with PET scans. But actively discouraging Australians from seeing their doctors is not the way to cut costs.

I accept that each incoming government will rebalance the budget, to support those activities (such as fighter jets and new roads) that are closest to its agenda, and reduce or eliminate support for the programs of the previous government that it deprecates. Such rebalancing is natural and healthy for the democratic process. But this budget goes way beyond the normal rebalancing of such changes, in this economist's opinion.

There are many aspects of the budget I have not covered, including the fact that, following the budget transparency reforms of Peter Costello (Treasurer from 1996 to 2007, in the previous centre-right administration), there were no surprises in Australia's public finances for this incoming government, no 'black hole' that might explain measures not outlined before the election. As I said above, there may be a problem with Australia's public finances, but it's not a crisis. I would give this budget a B- for reforms and a C- for fairness.

On 9 December, in the face of a hostile Senate, the Government revised its proposal for the AUD7 co-payment: 8 million patients (children, pensioners, veterans, nursing-home residents and concession-card holders) will be exempt from cost increases, and the co-payment for pathology and diagnosis imaging services has been dropped. But the doctors' rebate paid for most patients is to be cut by AUD5 per visit, which will encourage doctors to pass the cost of the cut on to their patients, again discouraging visits to

GPs. The 1983 RAND study (Brook et al., 1984), still cited as the only comprehensive randomised trial of the impact of health care costs, suggests that the sickest and poorest patients will be discouraged most. This will be to their cost, and to ours, if later sickness must be treated in hospital. At the time of writing, in December 2014, it is not clear whether the co-payment proposal will pass the Australian Senate.

I finish by noting that I personally benefit greatly from the tax treatment of superannuation, but I would happily pay tax on my contributions if it would shield the national science agency, the Commonwealth Scientific and Industrial Research Organisation (CSIRO) from swingeing cuts and assisted Australia to become healthier, smarter and better educated.

Notes

1. The proposed AUD5.5 billion Paid Parental Leave Scheme, originally scheduled to start in July 2015, was to be funded in part by a 1.5% company tax levy on business. It offered full salary replacement for a parent for up to 6 months, capped at a maximum annual income, originally of AUD150,000, later reduced to AUD100,000, together with superannuation contributions. If introduced, it will replace a scheme introduced in 2011 whereby the Federal Government provides a uniform 18 weeks' pay at the rate of the National Minimum Wage. In December 2014, in the face of widespread opposition, the Prime Minister signalled a willingness to review the proposed Scheme, but at the time of writing, the outcome was still unclear.
2. As explained below, both the quantum and incidence of the proposed co-payment have undergone modification and the policy revision was not finalised at the time of writing.

References

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Author biography

Robert Marks is Emeritus Professor of Economics, in the Business School, The University of New South Wales (UNSW) Australia, and Professorial Fellow at the University of Melbourne. In July 2014, he was elected a Fellow of The Royal Society of New South Wales (est. 1821), the oldest scientific society in the Southern Hemisphere.