The Bankrupt Australian Health System

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ABOUT THE AUTHOR

David Corbett graduated in Medicine from Melbourne University in 1964. He subsequently trained as a specialist Anaesthetist. He has spent one year in the United States, one year in Saudi Arabia and many years in city and rural hospitals in Australia in that specialty.

He has also gained qualifications in accounting, finance and investment and has a diploma from the Institute of Company Directors. He has a continued interest in mathematics and physics as well as studying Electronic engineering for four years part time. He was also a Councillor on the Essendon City Council for three years.

THIS BOOK IS DEDICATED

To my younger colleagues
…. whose talents are being so cruelly wasted

and

To my country
…. which deserves so much better

CONTENTS

PREFACE

Australia has been lumbered with an overly expensive health system, and one that is unsustainable. The system was badly conceived and only introduced to gain political votes. The chickens are now coming home to roost, with an ineffective distribution of medical personnel, poor service and an unbearable cost to the government. There are simple answers to the problem, but politicians must face reality. They must admit that the system is flawed and revert to sensible economic management.

INTRODUCTION

The health system in Australia is reaching crisis point. Planning for the future is in chaos, there will soon be an over-supply of nurses and doctors, and the cost of health care is exploding.

Australia has a high concentration of doctors in city areas and insufficient numbers in rural areas. Because of the lack of locally trained doctors, up to 40% of our medical workforce is foreign-trained and these foreign graduates mainly staff our country hospitals.

The waiting lists for elective surgery are getting longer every year. In 2012, patient waiting times in Victoria for the two

commonest surgical specialties were 41–46 days (for general surgery) and 63–76 days (for orthopedic surgery). The proportion of those waiting over a year for elective surgery in those two specialties was in excess of 2.0% and 4.4% respectively.

We have ambulances lining up outside hospitals—sometimes up to seven deep—because there are not enough medical staff to keep the emergency departments clear. The time ambulances spend waiting to off-load patients is known as "ramping". Between 1st January and 30th June 2012, ambulances wasted a total of 3,975 hours ramping at just one major Melbourne hospital.

Patients sometimes lie on gurneys in emergency departments for more than 24 hours before being admitted to a hospital bed.

When people look at the Australian health system, they see it to be dysfunctional and believe that this is due to a lack of funding. But is funding the real problem? Is there any country that provides comparable or better

health care at a cheaper rate? In fact, to our shame, there is. Consider table 1 below and note the performance of Cuba.

Table 1: Medical resources, costs, and outcomes: 2012

Measure	Australia	USA	Cuba
Life expectancy at birth	**81**	**78**	**79**
Child (<5) mortality/1000 of population	**5**	**8**	**5**
Health expenditure:			
U.S. $ per capita	**3,484**	**7,960**	**478**
% of GDP	**8.7**	**17.6**	**5.91**
Doctors/1000 population	**2.50**	**2.30**	**5.91**

Source: World Health Organization

Despite USA embargoes against imports of drugs and equipment, Cuba seems to be out-performing Australia (and the USA) on a number of important measures. Some further interesting facts about the Cuban health system are as follows:

- Life expectancy in Cuba is 79 years, one of the highest in the region.
- The Cuban mortality rate is the third lowest in the world.
- On a per capita basis, the prevalence of AIDS is only one sixth that of the US.
- In 1999, Cuba had one doctor for every 170 people.
- Cuba is presently training about 8 medical undergraduates from the USA who cannot afford to pay for training in their own country.

What? Cuba spends only $478 per person on health and yet can train almost 6 physicians per 1000 of population when Australia spends $3,484 and can only train 1.5? Fidel Castro rubbed further salt into the wound by offering to send 1,500 physicians to the USA to help after Hurricane Katrina devastated New Orleans.

Something here just doesn't add up.

In Australia, we have a system which has grown like Topsy, with the result that there is an enormous wastage of health funds. Funds are being diverted to unnecessary bureaucracy and to purposes totally unrelated to health care.

In order to understand how to deal with these problems, we need to understand what forces exist, how they developed and how they need to be changed in order to correct the present mess.

1 NATIONAL HEALTH SYSTEMS

Following the Second World War, Britain introduced a national health system. Initially, this service—in place by 1948—was free at point-of-service and funded by general taxation.

After the introduction of the British system, tentative efforts were made to introduce something similar in Australia. However, resistance by the medical profession stalled the introduction of an Australian system until 1973. The decline of standards of patient care in England due to its national health system provided good evidence that the reticence of Australian doctors was justified. By 1970, other

countries—such as Sweden and Canada—had introduced national health systems that were also showing signs of trouble.

The American philosopher George Santayana once stated that those who will not learn the lessons of history are condemned to repeat it. The problem is that the real lessons of history are never taught. Dates and bare facts might get taught, but not the reasons why events occur. For example, we are taught that in 1066 William the Conqueror invaded England, but why did he do it?

If we analyzed history and learned the obvious consequences of actions, we would make fewer mistakes than we presently do. Because we rarely consider in detail what will happen if we perform a given act, we tend to make the same dumb mistakes time and time again.

The fact that no lessons are learned from history has often been parodied as *The only lesson to be learned from history is that no-one ever learns anything from history.*

Thus it should come as no surprise to learn that those who introduced the national health system in Australia never took note of the problems that were obvious in comparable overseas systems.

The Australian national health push was set rolling by Graeme Perkin, the editor of *The Age* newspaper in Melbourne. In the mid-1960s, he published a three-part article over three consecutive Saturdays entitled "Medicine in the Market Place". The article queried whether doctors were dedicated to the treatment of patients or whether their primary interest was the acquisition of wealth. His passion was ignited by a personal experience he had had with the treatment of his father.

At this time, the Australian Labor Party had been in opposition for about two decades and was especially keen to regain power. The introduction of a national health scheme seemed like a good idea at the time as it had wide public support and thus was a potential vote winner.

But the politicians never considered the repercussions of the particular national health scheme they were proposing. First, the cost of the scheme was bound to become exponentially expensive. Second, the introduction of the scheme would only win votes on one occasion. At the next election, voters would be looking to be plied with a fresh set of goodies.

Doctors warned of three main dangers with the proposed scheme:

- A scheme in which the patient paid nothing was bound to be over-used by patients.
- A scheme which cost the patient nothing would lead to doctors over-servicing.
- Giving every citizen an open check book would become prohibitively expensive for the government.

These warnings were ignored and Medibank—the name given to the national health service—

was introduced. It was claimed to be a great political reform, and it was not to be thwarted by the concerns of doctors. Whenever these concerns were aired, the Labor Party and the press embarked on a vilification campaign against doctors. Doctors were labeled "greedy bastards" and their attempt to sabotage the introduction of such an illustrious scheme was deemed to be born of mere self-interest.

This vilification led to violence. The walls of some doctors' surgeries were daubed with slogans such as "The AMA makes me sick" and some doctors were run off the road as they drove along. (In those days, doctors who were members of the Australian Medical Association (AMA) affixed the symbol of the Cross of Malta to their cars. They don't do that anymore.) As a result of this intimidation and violence, many doctors took self-defense courses.

The bitterness and lack of trust whipped up by the government at the time continues to color the relationship between government

and the medical profession. Doctors today still have no trust and little respect for government, and this antagonism will not be resolved easily. But it must eventually be resolved if our health system is to become sustainable.

On gaining government, the Labor Party introduced a bill to the Federal Parliament that was subsequently called the *Health Insurance Act 1973* (also known as the *Medibank Act*). The Act was strongly opposed by the opposition parties and required a double dissolution of the Federal Government to enact it. A double dissolution forces a new election for all seats in the Senate and the House of Representatives. The bills that caused the double dissolution are then voted on by a joint sitting of both houses of parliament: the Senate and the House of Representatives. When the bill to introduce a national health scheme was introduced to the joint sitting, it was passed.

As the *Health Insurance Act* created a system whereby every citizen had access to medical care at no direct cost to themselves,

the system was bound to become prohibitively expensive, and for three main reasons:

1. *Every citizen had basically been given an open check book with which to write unlimited checks on the government.*

If a government introduces such a system and the government has to pay the real cost while the user pays nothing, it follows that the government must eventually go bankrupt.

The problem for government is that it is always hard to withdraw a concession that people have come to expect. Money given to people with trivial complaints is obviously money that cannot be used for more important purposes, such as providing new hips and knees to those whose lives continue to be intolerable without them.

But there are more votes in people with coughs and colds than there are in people requiring new hips, and the government was more interested in votes and redistribution of

wealth than in prudent economic management.

2. *As new medical techniques requiring new equipment are invented, there must be an increase in costs.*

A notable example of this is endoscopy, a technique unknown prior to the introduction of Medibank. Another example is gastroscopy. Few gastroscopies were performed before Medibank, but with the advent of more sophisticated equipment, some surgeons are now performing ten or more per week. At a cost exceeding $150 per procedure, this adds $1500 per operating surgeon per week to the cost of Medicare.

3. *Over-servicing by doctors.*

As there was no incentive for doctors to rein in costs, the opportunity arose to provide medical services that were not completely necessary but could be excused on the grounds

that they were important for a patient's welfare. This became worse as litigation against doctors increased. To protect themselves, doctors ordered a multitude of tests in order to avoid any accusation that they were not thorough enough.

When the chickens came home to roost—and virtually every problem about which doctors had warned came to pass—doctors were no longer accused only of being "greedy bastards". They were now blamed for everything that was going wrong.

The outcome was that doctors ceased giving suggestions as to how the service might be improved (not that they were ever encouraged to do so). The attitude of the profession became: "OK, you do it your way and we'll look after ourselves". The schism produced by the political vilification has resulted in a lack of medical input into national health strategy. This is costing the government, and ultimately the public, an enormous amount of public money.

Not all doctors were opposed to the introduction of Medibank. As it has turned out, Medibank—and Medicare as it was later called—has been a financial bonanza to the profession. Medicare guarantees the incomes of all doctors and this income can easily be expanded by any doctor to meet their personal financial needs. If the purpose of Medibank was to limit the income of doctors, it has failed spectacularly. Most doctors tripled their incomes within two years. Doctors were soon buying Rolls Royces at a prodigious rate and overseas trips were the order of the day. One day, I noted a consultant doctor arriving at the hospital in a medium-priced Ford car. When I asked what had become of his Rolls Royce, he told me that he had sold it because he was fed up being abused by people he didn't even know.

The concept of a national health scheme is not inherently wrong, but the way it was introduced was far from clever. It led to a breakdown of trust between doctors and

government, and many doctors came to adopt the attitude of "every one for themselves". Rectifying the problems will require, at the very least, the removal of a host of politically appointed health bureaucrats who presently siphon enormous amounts of money out of the system without providing any demonstrable value in return.

For some reason the introduction of a national health system in Australia has been hailed as a great reform. However, it has become the major cause of the damage done to the Australian health care system and is gradually destroying the Australian economy.

Probably the greatest exploiter of the weaknesses of the Australian national health system was a person we shall call Ged (not his real name). Ged's wholly legal exploitation was breathtaking, surpassing the efforts of many others who tried a similar approach but ended their careers in suicide. As Ged sallied forth he left in his wake a Medicare financial system that looked for all the world like a field

of recently harvested wheat. His generous return of largesse to the community ranged from the establishment of luxury medical centers to the support of a football team which brought great joy to those less fortunate north of the Victorian border. Politicians agreed that the Australian community deserved such opulence and praised his efforts. They had to, of course, because Ged was doing everything by the book. But doing everything by the book does not necessarily lead to the books being balanced at the end of the day. Eventually, Ged, somewhat akin to his football team, ceased to kick goals and the authorities began to take their revenge. This may have been because they resented doctors sniggering at them or because Ged had had the audacity to reveal their inordinate stupidity. Who knows?

Private health insurance

A particularly deceptive method used by government to contain the cost of health care has been its support for private health insurance. Government encourages people to take out private health insurance and even provides concessions to those who do and penalties to those who don't.

Most people take out private health insurance in the belief that they might otherwise not get medical treatment in an emergency. Wrong! If you really need urgent treatment, you will get it. Doctors just can't help themselves. Of course, if the treatment is not urgent, you may have to wait some time—often considerable time—if you are not insured.

The government encourages private insurance because it shifts a considerable cost burden from itself on to the community in general. That is, the privately insured person

is paying what amounts to an extra tax for the privilege of being responsible for his or her own health.

Government has introduced community rating. This means that all insured people pay the same premium for insurance *regardless of risk*. (Traditionally, insurance premiums are rated according to risk: if there is a high risk that a claim will be made, the premium will be higher than if there is a low risk.) Now, approximately 12% of those over 65 years of age have private health insurance. This figure has remained reasonably constant over the decades. But for every dollar the over-65s contribute to the pool of medical funds, they take out over six dollars. This is not surprising as the over-65s have a greater risk of illness and require more medical interventions than younger age groups. But guess who is paying the extra five or so dollars? Because of community rating it is the under-65s. Moreover, the under-65s are financially penalized if they do not have private health insurance. But enforcing private

health insurance on the under-65s at the risk of penalty amounts to extortion.

If enough people leave private health insurance, the government will be forced to remove the extortionate community rating and let insurance companies insure according to risk. That is, you will now be insuring yourself and not every other medical cripple and his dog.

Here's an idea: use the money you currently pay for medical insurance to pay off your house. Arrange with your bank to allow the equity you have in your house to be used as a line of credit. If you need to pay private fees to get a quick operation, the chances are that you will be much further ahead with your house mortgage than you would otherwise be. In fact, the chances are that you will never need an urgent private operation, and thus you will be in clover, having paid off your house much earlier than you expected. If you don't have a mortgage, put the money aside and save up for one.

To get riskier patients into the private sector, the government has:

- rebated 30% of the private premium
- imposed a levy on those not privately insured and
- enforced community rating on insurers, with the result that privately insured people help to pay for those that the government should be paying for.

2 | POLITICS

To understand politics one must learn to interpret words in ways other than their literal meaning. Whenever a politician talks of introducing *reform*, realize that this is a euphemism for *cock-up*. Notable examples include health system reform (cock-up) and education reform (cock-up).

Cock-ups might not be inevitable, but the pattern throughout history strongly suggests that they are. There is one over-riding reason why cock-ups occur: politicians never consider in detail the consequences of the actions they take. (In fairness, this phenomenon is not restricted to politicians. Most of us act

first and think of the consequences later.)

Isaac Newton stated a universal law when he said that every action has an equal and opposite reaction. If you want to paint your house yellow, your neighbour will inevitably complain that such an action depreciates the value of their property. And every boxer knows that whenever thy make an aggressive movement, that movement also opens them up to attack. A boxer who does not realize this ends up on the canvas.

The message is simple: whenever an action is contemplated, one must always consider the obvious response (reaction) to that action. Any great reform a government wishes to introduce will cause some undesirable effects and inconvenience someone. All the government has to do is think of what those effects are likely to be and either offset them or not proceed with the reform. However, as many political actions are meant to win votes or to be monuments to a particular politician, the initial action is usually more important

than the consequences.

When there is interference with the trajectory of any economy, the response is never immediate. Let us say that the economy is trending downwards and politicians make a corrective change. The economy does not immediately bend sharply upwards. What happens is that there is a gradual levelling out and then a reversal towards growth. This is known as the *J-curve effect*. A similar effect occurs when the economy is trending upward and politicians stab it in the back. The curve then looks more like an inverted umbrella handle. The transition in either case is one to an initial levelling followed by a reversal of the trajectory.

The *Health Insurance Act* was purely a political device to gain votes. The desire to win votes was so strong that it suppressed any serious consideration of the *Act's* likely consequences. But the damage caused by its introduction did not become obvious immediately. Indeed, papering-over the problems by people of good

will meant that the enormity of the damage caused by the *Health Insurance Act* took a long time to become apparent: as many as three decades, in fact.

In the 1990s, the government noticed that the cost of the health system was blowing out. On the basis that doctors create cost, it was therefore decided to limit the number of doctors. The unintended result was our present doctor shortage.

In order to cope with the shortage—which was especially acute in rural areas—foreign medical graduates were encouraged to come to Australia. Now about 40% of Australian doctors are foreign graduates. This helped the rural shortage, but the way the policy was implemented also created a time-bomb. The rural foreign graduates were required to serve about 10 years in the country before being granted general registration. This time limit is now coming to an end and so we can expect a mass migration of country doctors to the large cities. This will again leave the country areas

short of doctors and produce a glut of doctors in the cities.

Another way the number of doctors was increased was by increasing the number of undergraduates being trained by our universities. This has produced two further problems:

- there are not enough postgraduate training positions to train the number of graduates and
- when these graduates are trained, there will not be jobs for all of them.

"*when everyone is somebody, then no-one's anybody*"

Gilbert & Sullivan, The Gondoliers

To understand why some politicians divert public funds from worthwhile objectives, we need to consider the educational upbringing of many of them.

Marx

"Have you read Marx?"

"I'll give you red marks!"

from "Take it from Here" by Frank Muir & Denis Nordern

Labor Party members develop in an environment steeped in the teachings of Karl Marx. Marx developed the theory of a class struggle, in which workers and capitalists were class enemies. He postulated that the workers would eventually subdue the capitalists and the world would live in harmony.

According to Marx, all capital (or wealth) is derived from the output of labor. The fruits of a worker's labor were appropriated from him and added to the capitalist's store of wealth. In Marx's words, capital is "crystallized labor in the abstract".

Now Marx did recognize that factors of production such as a lathe or loom did

multiply a laborer's productive output but, as capital was only crystallized *labor*, he never considered that the supplier of the lathe or loom had any right to reward for that supply.

The Jesuits have a saying: "Give me the child until the age of seven and I will give you the man". The same principle applies to the unionist steeped in socialist tradition. As one with some experience in the field, I can assure you that it is very difficult to divorce one's self from the fears and noble aspirations that have been drilled into one as a child. Many union executives see employers as thieves and exploiters of vulnerable workers.

Councils

I was once a councillor on a city council. At the time, the council officers had a penchant for creating traffic roundabouts. These roundabouts were often in rather strange geographical locations—but that's another story. What interested me was the cost. Each roundabout was priced at between $80,000 and $100,000. Frankly I could not see how a stone circle could cost so much, and nobody could ever satisfy me that it did. Well, in order to build each roundabout, tenders were sought. When tenders closed, the council officers would allot the work to selected companies. These companies were not always the cheapest. When I asked why, I was told that the companies were chosen because they did good work. One has to ask: why bother asking for tenders when you have already decided who is going to get the job?

Another item of interest to me when

I was on council was the inability to extract information from council officers. At one stage I asked how many employees the council had, what they did and what they were paid. "Sorry, I can't give you that information", the officers said. "The unions wouldn't allow it." So I wrote to the State Minister of Local Government in the then Labor government to ask for his support in getting the information. His reply, in essence, was: "Yes, you are entitled to that information but I'm not going to make them give it to you".

The question arises as to why councilors, or anyone else for that matter, are not permitted to know how many people are employed by a council. One possibility that readily springs to mind is that the council is employing *ghost* workers, that is, workers who collect pay but do no work. Even an audit of council finances will not ensure that Mr. Michael Mouse does, in fact, provide any services to the council. Nor would the auditor know, or indeed care, whether Mr. Mouse used

most of his pay to give generous donations to his preferred political party.

This same pattern can be seen in the recent and notorious "Building the Education Revolution" cock-up. Much money was allocated to building school halls and the like for schools—whether the schools needed them or not! This appeared like a good idea at the time, although it went a little awry. However, it can be seen as another form of mischievous funds diversion.

In New South Wales, the government decreed that work on public projects must be done by designated builders. It was later found that these builders charged up to twice the rate that private builders acting for private schools charged where proper tendering for projects was enforced.

Why weren't public schools allowed to get the contractors who offered the cheapest constructions? Why were certain firms favored? One is tempted to ask if some of this money found its way to less deserving projects.

At local and state government levels we see a similar mystical disappearance of large amounts of public funds.

You might have noticed that the Labor Party is persisting with the drive to recognize local government in the constitution. This would enable the Federal government to directly fund them. Guess why? If you feel that an insufficient amount of your tax money is being hived off by political parties, you know how to vote!

We don't need councillors or local councils. Councilors mainly do what they are told by council officers. This is because very few of them have managerial or financial experience. As councilors are more attuned to social engineering than good management, the cost to the community of their social interference and mismanagement is enormous. Let the areas run by council officers fall under the purview of state governments without the interference (and cost) of posturing amateur politicians.

A similar diversion of funds has occurred with the Medicare reform (read "cock-up"). The health care system has become a milch cow for bureaucrats. When attempts are made to decrease the number of unnecessary employees, the cry invariably goes up that poor people are being put out of work. The fact that thousands of needy people are being deprived of their rightful treatment because of this inappropriate diversion of funds is never considered.