The Australia Institute

Research that matters.

Reading *Between the lines* this week:

1. Subsidising Lycra at the expense of knee surgery—private health insurance premiums rise again
2. Is Barnaby right? Is there too much government debt?
3. Measuring what matters
4. Shaking up the super industry

1. SUBSIDISING LYCRA AT THE EXPENSE OF KNEE SURGERY—PRIVATE HEALTH INSURANCE PREMIUMS RISE AGAIN

Private health insurance premiums are set to rise tomorrow which might be why so many funds have recently been running TV ads encouraging people to join up immediately. The average premium increase will be a smidgen over six per cent, according to the Minister for Health and Ageing.

The minister estimates that the result will be a rise of about $3 a week for families after allowing for the 30 per cent tax rebate on private health insurance fees.

But this rise will be offset for anyone joining HBA, MBF or Mutual Community (part of the global BUPA group) with $150 of free sports gear.

For others signing new private health insurance contracts, there is 'an extra month free' on offer. Existing members do not miss out either with cash incentives offered for referring a friend.

So what? Who cares if private health insurance funds want to spend a fortune on advertising and give away gym shoes to help sign people up?

In fact, all taxpayers should care because, thanks to the 30 per cent private health insurance rebate, the taxpayer picks up the tab for 30 per cent of all the private health insurers' costs. That $150 worth of free sports gear is actually costing the taxpayer nearly $50.

The stated objective of the private health insurance rebate is to help take pressure off the public health system but, as premiums continue to rise, the insurers have begun to offer more and more short-term 'incentives' to encourage people to join.

In addition to cash payments and sneakers, private health insurers offer a growing range of 'extras' to sweeten 'basic' health insurance.

Extras can include alternative medicines like naturopathy, homoeopathy, hypnotherapy and even yoga. One fund also insures people for the 'holistic and multidimensional' Bowen Therapy and the trademark-registered Feldenkrais Method of 'learning about movement, posture and breathing'.

There is no problem with individuals seeking out such therapies if they so choose, but these alternative services are not provided by the public health system. While taxpayers are picking up the tab for 30 per cent of the cost of these 'extras', many citizens are going without access to basic health and dental treatments.

Although a growing number of private health insurance policies no longer cover people for 'expensive procedures that you probably won't need'—like knee and hip surgery—the list of 'extras' is growing steadily. But given that the public hospitals do cover knee and hip surgery and don't offer aromatherapy, it is becoming increasingly hard to see how every dollar spent subsidising the private health insurance system is taking pressure off the public hospitals.

2. IS BARNABY RIGHT? IS THERE TOO MUCH GOVERNMENT DEBT?

Senator Barnaby Joyce's short-lived promotion to the role of shadow finance spokesman was marked by his repeated claim that Australia is at risk of defaulting on its sovereign debt.

“We're going into hock to our eyeballs to people overseas. And you've got to ask the question how far in debt do you want to go? We are getting to a point where we can't repay it,” he told the ABC in February.

It was certainly a good example of his colourful language but a poor example of his financial acumen because, in reality, Australia's sovereign debt is modest.

Certainly, other countries in the world are in trouble because of their borrowing programs; however, those cases almost always involve countries unable to repay debt in currencies other than their own.

According to figures from the Australian Office of Financial Management, at the end of December 2009 only $7 million of Australia's government debt was denominated in foreign currency. By contrast, at the end of January 2010 the Reserve Bank of Australia had total foreign reserves worth $46.189 billion. So for the government as a whole, the net position is that Australia has significant foreign currency assets, not liabilities.

But is there too much ordinary government debt?

Australia ended up with a large amount of government debt following the end of World War II. In 1949–50, Australia's ratio of debt to GDP was 107 per cent; that is, the total stock of our debt was equal to 107 per cent of a year's

GDP or, put another way, if we had dedicated all of our national income to paying off the debt, it would have taken just over a year.

Despite the 'burden' of this 'high' level of debt after WWII, Australia went on to achieve a golden age of economic growth and development with unemployment below two per cent, an experience that makes our current concern seem trivial.

The present outlook suggests current levels of debt may peak at about 10 per cent of GDP ($153.2 billion) in 2013–14. That is also well below the most recent peak of 18 per cent of GDP in June 1996 following the recession of the early 1990s and less than a tenth of the post-WWII debt as a percentage of GDP.

Australia's public-sector debt is also very low by international standards, with the US, France and Germany all having debt/GDP ratios above 50 per cent while countries like Japan and Spain are currently over 100 per cent.

While public-sector debt in Australia is at historically low levels, household and corporate debt has grown rapidly over the past 20 years and is cause for some concern. But if it is private-sector debt that is the problem, why do people like Barnaby Joyce attack the level of government borrowing?

There are two possibilities. One, they don't understand the difference. Two, they are focusing on government borrowing as a way of indirectly criticising government spending. They know people worry about debt but they also know that people want governments to spend more on health, education and other important services.

3. MEASURING WHAT MATTERS

Bob Hawke once said that no child would live in poverty by 1990 but, since then, most politicians have learned to keep their big promises vague. These days, governments are usually in hot pursuit of 'sustainability', 'social inclusion' and 'the national interest' and while we may lament their achievements, they can always point to a long list of things that they have announced in pursuit of their goals.

The problem is that with such vague goals it is virtually impossible to talk about success with any degree of certainty. A cynic might argue that that is precisely why governments like them so much.

The Australia Institute is working on a solution to this problem as part of its 'Measuring what matters' project. We are taking quite a different approach to developing these indicators; for example, we are developing indicators of failure for some of the big issues rather than indicators of success. Here's why.

Sustainability and unsustainability are opposites, so are social inclusion and social exclusion. In theory, if we can define one, we can define the other and if we can measure one, we can measure the other. But in practice, who knows how to precisely define or accurately measure sustainability or social inclusion?

Defining elements of social exclusion and unsustainability, on the other hand, is more straightforward. If a growing number of people say that they are lonely, we are unlikely to be achieving the goal of social inclusion. If more and more cars are using more and more petrol, it is unlikely that our transport system is becoming more sustainable.

The logic behind such an approach is simple. It's hard to believe a society is moving forwards if there is strong evidence that it is moving backwards. If fewer people say they are lonely, if our greenhouse gas emissions are falling, if our cities stop gobbling up the countryside and if there are fewer cars on the road, the odds are we are moving in the right direction.

While it is important to set long-run goals like 'making Sydney's transport system sustainable by 2050', it is virtually impossible to measure progress towards such goals. We can't really plan the transport for a city in 40 years time if we don't know what its population should be and we can't really choose between transport modes when we don't know what will be invented in the next 40 years.

But that doesn't mean we can't plan. If we plan to reduce transport fuel use, if we plan to reduce congestion and travel time and if we plan to reduce the amount of air pollution, we can do some very important things.

1. We can develop simple and meaningful measures of performance. If fuel use and travel times are rising, our governments are failing to deliver on their promises.

2. When new options are put on the table, we can be clear about how we will choose between them. Proponents of new tollways would be free to explain why, for example, their proposal is the best way to reduce transport-related fuel use.

3. We would be able to assess a broad range of government policies, such as population policies, urban planning policies and even school and hospital location decisions in terms of their stated goals for a problem such as transport. It would be up to departments and developers to explain how, if at all, their proposals are consistent with clearly stated government targets.

Of course, it would be nice if we could simply navigate our course by looking to the clearly defined light of sustainability and social inclusion glowing on the hill, but without clear and widely agreed definitions it is impossible to plot such a course. Developing simple indicators of the things we want to avoid is no substitute for developing creative visions of where we want to get to, but it will certainly help to make sure that we are not sinking into the swamps while we are heading for the hills.

UPDATE

Thank you to everyone who participated in our 'Measuring what matters' survey and to those who generously donated money towards the project. Work/life balance and health came out as top priorities and we have already begun to collect data about both, and they will become the first of our new indicators. We will continue to report back to you as we develop our indicators and progress the 'Measuring what matters' project.

If you would like to donate to the project, please go to https://www.tai.org.au/index.php?q=civicrm/contribute/transact&reset=1&id=4

4. SHAKING UP THE SUPER INDUSTRY

Some superannuation funds make billions of dollars each year from the millions of their customers who are too busy, bored or confused to look into the fees they are paying. The Cooper Review into Australia's Super System has suggested that these members be helped via the creation of 'default' schemes, low-cost vanilla options for people who don't make active choices about their superannuation. No-one would be forced to stay in such funds but people who expressed no preference would automatically be assumed to be best served by these safer, low-fee funds.

The for-profit superannuation industry is actively working to undermine these recommendations, which threaten the very lucrative structural arrangements that allow retail funds and financial intermediaries to profit at the expense of disengaged members.

The industry is now challenging all the Review's recommendations on the basis of one ambiguous clause.

The clause in question states that a 'universal' member 'must be in a fund with a single diversified investment strategy'. The industry has chosen to interpret this to mean that existing funds 'would have to establish separate fund structures to cater for the members categorised as either "universal" or "choice"'.

It is not at all clear that this is what the Cooper Review meant, although it may have been. In any case, there are many default funds currently in operation that are low-cost, have a diversified investment strategy and explicitly prohibit the paying of financial advice fees without member consent. These funds would easily meet the standards embodied by the 'universal' category.

There is a view that super 'ain't broke, so don’t fix it'. Yet the superannuation system in its present form clearly does not meet the needs of a substantial proportion of members.

To understand the stakes, consider that every year Australians pay $14.3 billion in fees on their superannuation; this is roughly equivalent to one per cent of GDP.

One solution is to set up a single fund with government backing (but administered by the private sector) to invest funds on behalf of all members in the universal category.

An alternative approach that would not involve any major restructure but would provide similar benefits to disengaged fund members, is to establish a set of minimum standards that all default funds would need to meet. These could include a cap on fees, a ban on entry or exit fees, and restrictions on fees and commissions for financial advice.

Whatever approach is taken, there are compelling reasons to press ahead with reforms that place the needs of members above those of industry when determining superannuation policy.

RECENT MEDIA

The Australia Institute hosted a lecture by Dick Smith in which he addressed the issue 'Population: the elephant in the room we have ignored for too long'. To watch the speech go to YouTube
http://www.youtube.com/watch?v=_ui27ZIf4iY

To read Josh Fear's opinion piece on superannuation, 'Redressing the balance for members', published in the *Australian Financial Review*, 27 March, go to
https://www.tai.org.au/index.php?q=node%2F19&act=display&type=5&pubid=740

To read David Richardson's opinion piece, 'A licence to print money: bank profits in Australia', *Online Opinion*, 15 March, go to
http://www.onlineopinion.com.au/view.asp?article=10170