# Putting doctors where they are needed

No. 27 June 2001



***The shortage of doctors in the bush has been a perennial problem. Successive Federal governments, intimidated by the AMA, have attempted to deal with the problem by throwing more money at it. But doctors are already effectively on the public payroll. Here Clive Hamilton proposes an economic rationalist solution to the maldistribution of medical services—auctioning Medicare provider numbers tied to geographic areas.***

General practitioners receive most of their income directly from the Commonwealth Government in the form of Medicare payments. Despite the fact that the government foots the bill for the provision of medical services it has very little control over the way in which the services it funds are provided.

Doctors have long maintained that such independence is essential to the good practice of medicine. However, that has not prevented the stampede by GPs to join lucrative commercial medical practices controlled by corporations that monitor all aspects of individual doctor performance.

The Australian taxpayer provides billions of dollars to GPs to provide medical care to Australian citizens. Despite this enormous outlay, the government is unable or unwilling to influence where doctors practice. The current system allows for doctors with a Medicare provider number to practice medicine wherever they prefer rather than where they are most needed.

Although all Australians make similar contributions to fund the medical system through general tax payments and the Medicare levy, access to medical services is determined not according to need but to the residential preferences or perceived profit possibilities of the doctors themselves.

Public servants accept that they have to work where the job needs doing (although the Prime Minister makes an exception of himself). Teachers, police and even nurses have long understood that jobs are distributed across regions according to relative need. While they may prefer to live in the city or on the coast, their preferences do not lead to the creation of jobs to satisfy them.

There are significant spatial differences in the availability of doctors. At the state level, NSW, the ACT and South Australia have well above the average level of doctors per 100,000 of population. Western Australia on the other hand has only 87 per cent of the national average. In 1991, the NCEPH found that within NSW there were 152 doctors per 100,000 people living in Sydney compared to 118 in other major metropolitan areas and 79 for rural populations outside major centres. A 1998 report entitled *Influences on Participation in the Australian Medical Workforce* suggested that lifestyle choices of medical practitioners contribute to the difficulty of attracting and retaining doctors in rural areas.

The policy problem is to create a system that allocates access to medical services according to need while still allowing doctors to have some choice about their preferred location. Our proposed solution relies on market forces.

If Medicare provider numbers were allocated not to doctors but to geographical areas (such as by postcode) then the population of an area, combined with its demographic profile, could be used to determine an equitable distribution of GP places.

In some areas, areas that have generally not been attractive to doctors, this would lead to an increase in doctor numbers. In others, particularly wealthy metropolitan areas and non-metropolitan areas offering attractive lifestyles, it is likely that the number of doctors would need to fall. The question arises of how to allocate individual doctors to different areas.

**Doctors who most want to practice in the eastern suburbs of Sydney would be required to pay in order of $80,000 for the right to do so.**

The best approach would be to auction Medicare provider numbers. In areas where there is currently an inadequate supply of GPs, there would be more Medicare provider numbers than bidders and the price would be zero.

Where the number of doctors wishing to practice in a particular area exceeds the number that could be justified on medical equity grounds, doctors would be required to bid for the right to provide Medicare funded GP services. The more desirable the area, the higher the price would be bid until only those doctors who most want to practice in a particular area are left.

On the basis of differences in income levels for GPs, we estimate that doctors who most want to practice in the eastern suburbs of Sydney would be required to pay in the order of $80,000 for the right to do so.

Doctors who miss out on their preferred location would still be free to practice medicine wherever they liked; they would just not be eligible for public funding through the Medicare rebate scheme.

While doctors who miss out on places in sought-after locations would probably move elsewhere, it is still possible that some regions would have difficulty attracting enough GPs.

In such instances, the same system could be applied in reverse, with the government offering inducements, such as supplementary payments, to doctors to work in remote areas using the funds acquired from auctioning provider numbers in popular areas. Doctors requiring the smallest inducements would win access to the right to provide publicly funded GP services in that area.

The proposed scheme will no doubt draw criticism from doctors who currently set up a publicly funded business in a location that maximises private convenience. But the trend towards corporatisation of medicine is undermining the moral claims of doctors to independence.

**The rise of corporate medicine is one of the biggest threats to the current health system.**

Large companies are now replacing individual doctors or partnerships in the provision of GP services. These companies, which often ‘vertically integrate’ general practice, pathology, radiography and physiotherapy are seeking to improve the profitability of the medical industry through both ‘better’ management techniques and through increasing the interdependence of the various arms of the practice.

If such organisations are actually more efficient than the old model of independent doctors working in isolation then it begs the question of why governments are not considering setting up such practices themselves, employing doctors on a salary, and using the same management techniques being used by the new conglomerates to measure the performance of individual doctors.

The important difference would be that rather than using new management techniques to extract larger profits from the public purse, managers would be able to carefully monitor the extent of any over-servicing or excessive diagnostic referrals by individual doctors and in the process protect the public revenue stream.

The existing medical system was set up to deal with a large number of small medical practices working in isolation from each other. If medical providers choose to consolidate in order to achieve greater market power then the government must change its approach to payments.

Higher profits in the medical industry based on extraction of increased payments from the government means either higher taxes or less money available for the actual delivery of medical services. With current trends, the cost of Medicare provider numbers under the proposed auction system will soon be taken out of the profits of major medical corporations rather than the incomes of individual GPs.

The current medical system is failing to provide equitable access to healthcare in Australia. Increased reliance on competitive market forces, when the regulatory structure is well designed, provides an efficient way to overcome both the market power of the new medical corporations and the reluctance of doctors to practice where they are needed most. ■

# *Budget pits 'deserving' pensioners against 'unworthy' unemployed*

***The socially divisive distinction between the 'deserving' and 'undeserving' poor— the mostly unspoken presumption of Mutual Obligation policies— has been fully exposed by the 2001-2002 budget. Pamela Kinnear points out the contradictions.***

The biggest 'winners' in the Federal budget were older people. A range of tax breaks were announced for older people as well as a one-off payment of $300 for pensioners. The Treasurer repeatedly said that these initiatives were justified because older Australians as a group 'deserve it'.

At the same time, however, the budget didn't let up on its punitive Mutual Obligation requirements for unemployed people, and even extended the application of Mutual Obligation to sole parents and mature aged unemployed people.

Far from 'deserving' public support, for these groups of Australians support is conditional on them satisfying Mutual Obligation requirements. If they do not 'give something back', they are subject to heavy penalties.

**On reaching pensionable age, the 'undeserving' suddenly become 'deserving'**

The budget decisions about pensioners and other recipients of social security expose basic inconsistencies in the way the idea of mutual obligation is applied.

## Inconsistencies

Unemployed people are subject to Mutual Obligation requirements because the Government believes that they are not making an adequate contribution to society in return for their benefits. Presumably the same rationale applies to the new categories of recipients subject to Mutual Obligation—categories which will eventually include, amongst others, unemployed people up to the age of 55. So, while Australians of pensionable age are deemed to have already made their contribution, Australians only a few years younger are deemed to have not yet earned public support. On reaching pensionable age, however, the 'undeserving' suddenly become 'deserving'.

This irony is further extended by the focus on the contribution of older Australians as a group. Regardless of their individual circumstances, Australians of pensionable age— rich or poor, employed or unemployed, single parents or not, able bodied or not—are recognised for collectively making Australia what it is today.

In contrast, Mutual Obligation policies focus on the extent of individual contributions of working age citizens who currently rely on income support. These groups are not considered to be contributing to the collective effort of nation-building—instead, they are said to be 'taking' rather than 'giving'. Because of this, these groups are forced to 'give back' through the activities required by Mutual Obligation.

The Australia Institute's Discussion Paper on Mutual Obligation published last year argued that the claim that unemployed people and other social security recipients did not contribute to society was wrong. In fact, these groups make significant direct and indirect and indirect contributions to society.

The paper argued that although the distinction between 'taxpayers' and 'non-taxpayers' is commonly used to justify Mutual Obligation, this is a false distinction. All social security recipients pay tax. Most have paid income tax in the past and some currently pay income tax. They also pay a range of indirect taxes, including the GST. In addition unemployed people make involuntary sacrifices for the well-being of other Australians.

**No amount of money will hide the fact that the Government's idea of Mutual Obligation is fundamentally unjust.**

Many unemployed people are jobless because of economic management decisions that are justified on the basis of improving Australia's productivity and competitive edge. At times, Governments have decided to sacrifice employment growth for inflation control—decisions aimed explicitly at maintaining the living standards of those in employment.

In this light, the obligation of gratitude may be reversed—working Australians should be grateful to the unemployed for their involuntary sacrifice.

The Federal Government's decision to spend $1.7 billion dollars bolstering its Mutual Obligation policy under the umbrella of its 'Australians Working Together' initiative simply extends a punitive policy to even greater numbers of people. No amount of money will hide the fact that the Government's idea of Mutual Obligation is fundamentally unjust.

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# MissionAustralia.Com

After Mission Australia chief Patrick McClure handed down the report of the Reference Group on Welfare Reform last year, the welfare debate experienced a bright moment of consensus. But on budget night, the shortfall between what was promised and what was delivered turned hope to disappointment. Not only did the budget allocation fall short of the minimum $1 billion required to implement the reforms, but the central recommendation to overturn the punitive approach to Mutual Obligation was all but ignored.

Despite expressing some disappointment, Patrick McClure's response was largely positive. Not only was he "pleased that the Government has firmly grasped the nettle of welfare reform" but he concluded that the Government had made a "commitment to using sanctions only as a last resort". These comments comprised the grabs played on TV and radio on budget night and the next day.

There is little evidence to support the view that the Howard Government has now made a real commitment to use sanctions as a last resort. The new strategy for welfare – *Australians Working Together* – includes a paper outlining 'reasonable requirements' for recipients to fulfil in return for their benefit. The paper announces that the strategy will use financial sanctions only as a last resort and puts in place 'safeguards' to ensure that this will occur.

These safeguards include a requirement on agencies to contact non-complying recipients twice before penalties are applied, extra reminders about obligations and, in some cases, a second chance for those who have already been breached. Although undoubtedly an improvement on the 'breach first, ask later' system that currently operates, it falls a long way short of a system that would be guaranteed to only penalise genuine shirkers. A more convincing system would be similar to that applied in other areas of compliance regulation and would include negotiation, reassessment, diversion and warnings.

Crucially, the new safeguards only apply to first-time entrants to Mutual Obligation programs. If the Government has truly accepted the principle of 'last resort' sanctions, there is no basis for operating a dual system under which existing recipients are subjected to an unfair regime whilst new recipients will be treated more fairly.

The budget indicated that the Government intends to claws back $900 million from its 'reforms'. But exactly how the savings will be found remains unclear. In the present economic climate, with the projected rise in unemployment, it is unlikely that savings will be made by shifting large numbers of people from income support to employment. At the time of writing, the Government has been unable to provide detailed answers to a Senate Estimates Committee about how intends to make such large savings. It seems safe, therefore to assume that savings will be made in the same old way – from breaches.

Minister for Family Services, Larry Anthony's recent boast about the success of the 'dob-in-a-dole-bludger' initiative gives a more sinister tone to the title 'Australians Working Together'. The Government's war on 'dole bludgers' appears set to continue, despite fine sounding phrases.

In response to recent criticism, Patrick McClure has written that compromises and trade-offs are unavoidable when those in the welfare sector engage with the Government to develop social policy. That is undoubtedly true. However, the public can legitimately question the impartiality of those who work for welfare organisations that have become businesses dependent on government contracts. Mission Australia is no longer just a charity but a fully operational business entity with large government contracts through the Job Network. This inevitably changes the way charitable organisations see themselves and present themselves to the world. To illustrate, Mission Australia's web address ends in dot.com. When Mr McClure speaks, does he do so as the head of a charity o rof a business?.

*Pamela Kinnear*

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**Budget pits 'undeserving'...**
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## A fair society?

Mutual Obligation is not about making a fairer society; it is about making people who have missed out on the benefits of economic growth jump through hoops to satisfy misplaced and prejudiced demands for the 'bludgers' to 'give something back.' The demand of the wealthy for the poor to pay them back is itself a sign of 'taking without giving'.

Treasurer Costello's emphasis on 'deserving' older Australians and the 'unworthy' others clearly exposes the inconsistencies, muddled logic and basic injustice of the policy of Mutual Obligation. If we are to take seriously the new slogan—'Australians Working Together'—then the collective contribution of all Australians and our mutual dependency should be recognised and valued.

By bolstering an already faulty idea the 2001-2 budget just gilds a tarnished lily. The welfare provisions of the budget are founded on the politics of division and erode the basic Australian idea of a fair go. ■

# *Letter from the Executive Director*

The Institute has gone from strength to strength over the last year. One of the signs that we are having an increasing influence is the sudden arrival of invitations to attend some of the private briefings and symposia which, we discover, are held frequently among elite policy circles in Canberra. But Institute members need not be concerned—we are not being co-opted.

The Institute's profile has risen considerably, as would be expected with the expansion of research staff numbers a year ago. The following pieces of work seem to have had the biggest impact.

- Our work on academic freedom sparked a deluge of media interest, especially on the issue of soft marking for full fee-paying students. A number of universities, and the Australian Vice-Chancellors' Committee, have established inquiries into the issues.
- We have received continued positive feedback for our work on the ethics of mutual obligation. Many progressive people felt deeply uneasy with the policy but it was only after reading the Institute's discussion paper that they fully understood why.
- Our interactive website on the Genuine Progress Indicator has received almost 80,000 hits in its first six months (see below).
- The Institute proposal to change the way unemployment and overwork are measured was launched by Cheryl Kernot at a well-attended breakfast at the National Press Club. Ms Kernot announced that a Labor Government would adopt the proposal.
- The Institute's analysis of the private health insurance rebate showed that the $2 billion in forgone revenue was going disproportionately to wealthy families. The major political parties squirmed but, as yet, have done nothing.
- In work for the Productivity Commission, we showed that competition policy in the electricity market was directly responsible for a huge blowout in Australia's greenhouse gas emissions.

We also published important work on corporate welfare, ecological tax reform, GST and charities, gambling taxation, the lessons of Landcare, fair trade vs free trade, the epidemic of overwork, space junk and indigenous self-determination.

We have been working on a 'marketing strategy' for the Institute with a view to securing long-term funding. It's not easy for a progressive think tank to find support from philanthropic trusts and corporations, but we hope that enough people value what we do to sustain us in the years ahead.

The next year promises to be an interesting one as we approach a Federal election at a time when the verities of economic rationalism have lost their glow. We may be entering a period when the ideas and research of the Institute receive a more sympathetic hearing from the major parties.

The Institute's five hundred or so members are extremely important to us, not least because they serve as a constant reminder that there is widespread backing out there for what we do. We thank you for your continued support.

Clive Hamilton

## Tax Deductible Donations

As the end of the tax year approaches, why not consider a donation to The Australia Institute's research fund?

All funds are devoted to our policy research and all donations are tax Deductible.

## Third Way Conference

The Centre for Applied Economic Research at UNSW is holding a conference entitled "The Third Way: A policy framework for Australia" on 12-13 July. The keynote address will be given by Professor Bob Rowthorn of the University of Cambridge. The conference will open with a debate between Labor MHR Mark Latham, a well-known advocate of the Third Way, and Institute Executive Director Clive Hamilton.

For details contact Paula Browne-Cooper, School of Economics, UNSW 02 9385 3371 or P.Browne-Cooper@unsw.edu.au.

# Productivity Commission—Truth or Dare?

***While it appears that even John Howard now believes that protecting the environment is of critical importance to the future prosperity of Australia the Productivity Commission continues to play a spoiling role in the environmental debate.***

The public benefit test was included in national competition policy to ensure that non-market factors such as environmental quality and consumer rights would be protected. Much of the hostility to competition policy is due to the fact that the public benefit test has been systematically ignored by the governments and bureaucrats responsible for implementing competition reforms.

The Leader of the Opposition Kim Beazley has said that a Labor Government would insist that the public benefit test be taken more seriously, but no-one expects Labor to reregulate the dairy industry, buy back Victoria's electricity generators or renationalise Telstra. However, Labor may follow through with its promise to abolish the Productivity Commission, the foremost and most uncompromising bureaucratic advocate of economic rationalism over the last 15 years.

Despite attempts to give it a green tinge, the Commission has in report after report ignored or trivialised the environmental impacts of proposed reforms. In principle, the Commission is required to take account of the implications of its policy recommendations for ecologically sustainable development. However, it continues to focus on a narrow subset of 'resources' to the detriment of national productivity more broadly defined. In other words, with few exceptions, it continues to be preoccupied with financial performance to the exclusion of efficient resource use including protection of the environment.

In May of this year the Productivity Commission released its latest report on the performance of public enterprises entitled *Financial Performance of Government Trading Enterprises 1995-96 to 1999-00*. While there may be some merit in a narrow review of financial performance, the Commission continues to make judgements about how well GTEs are performing on the basis of financial measures alone. GTEs invariably have broader objectives than simply making a commercial return and should be judged on how well they fulfil those broader objectives.

That task should not be left to the Productivity Commission. In 1998 the Commission published a broader analysis of the same sector entitled *Performance of Government Trading Enterprises 1991-92 to 1996-97*. It is unclear which document does more to highlight the Commission's marginalisation of environmental impacts, for while the later document ignores the environment, the earlier one makes statements that are manifestly untrue.

Predictably, the 1998 report highlighted the benefits of reform of

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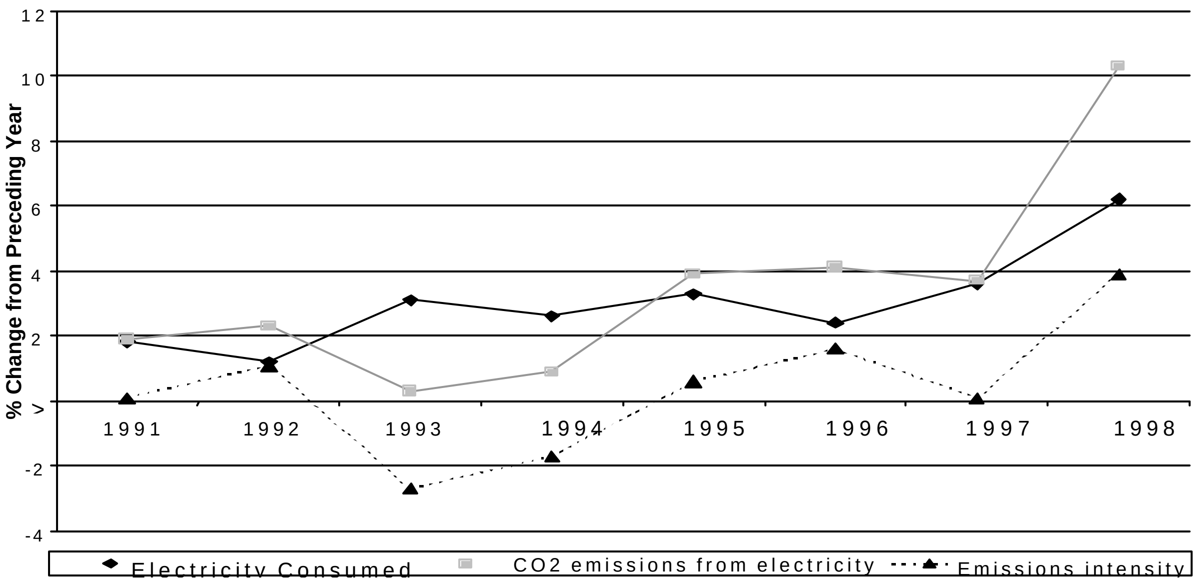
**Annual change in electricity consumption, intensity and emissions, 1990-1998**




*Source : AGO Greenhouse gases inventory: Analysis of trends (2000)*

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**Productivity Commission**

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the electricity sector in the form of lower electricity prices. It also summarised the environmental performance of the sector under the heading 'Environmental outcomes have improved'.

> Australia relies primarily on fossil fuels - a major source of greenhouse gases - for electricity generation. However, the level of carbon dioxide emissions for example, has either declined or its growth has been stabilised in all jurisdictions. This illustrates that improved financial performance can complement environmental objectives.

In fact, as the figure shows, both emissions and emissions intensity in the electricity sector have been increasing more or less unchecked since 1993, with the exception of 1996-7. A huge increase in emissions occurred in 1997-8, the first full year of competition policy in the electricity sector.

Since the introduction of reforms to the electricity industry, not only has the demand for electricity increased as prices to industrial users have fallen, but growth in demand for electricity has been met not by low emission sources such as natural gas but by the highest emission source of electricity, brown coal.

Policy makers and the public need easy access to good information if the performance of GTEs is to be monitored effectively. The role of the Productivity Commission in disguising the actual nature of the impacts of deregulation in the electricity industry serves to highlight how much work is left to do in reforming Australia's policy formulation process.

*Richard Denniss*

*Clive Hamilton*

# Update on university standards

Since the release in January of preliminary findings of the Institute's study of academic freedom and commercialisation, and the subsequent release of the final report in March, falling standards and the funding of Australian universities have continued as major public policy issues. The Institute's findings have been reported overseas, in both Asian and European media. Denials first offered by the Australian Vice Chancellors' Committee (AVCC) and the Government have softened as more evidence has come to light of problems in the university sector.

The AVCC promised to initiate a survey of all universities regarding student entry requirements and the grading of exams and essays, and individual universities have made efforts to protect themselves against allegations that they are not doing enough to ensure standards are maintained. A number of investigations have been launched into allegations that arose subsequent to the initial media stories.

The report of the inquiry into the case of alleged plagiarism at Curtin University, WA has recently been released. The report exonerated the tutor who first brought the issue to the attention of the media and said that the pressure to find funds from external sources along with other changes within the university led to difficulty in maintaining student standards.

The Senate Inquiry into Higher Education began public hearings in March and will continue until 19 July, with well over 300 submissions received to date. The submissions make interesting reading and can be found on the Senate website. The Institute will give evidence at hearings in June.

In mid-May the National Tertiary Education Union began action in the Federal Court against the University of Wollongong in the case of the sacking of university academic Ted Steele who was summarily dismissed for alleged 'serious misconduct' after he made public allegations of 'soft marking'. The case is continuing.

Despite these concerns, including the claim by the President of the AVCC, Ian Chubb that the sector is in 'crisis' due to a lack of funding, the Federal Budget delivered nothing new to higher education in Australia. We keenly await the findings of the Senate Inquiry.

### Conference

The idea of a university: enterprise or academy?

26 July 2001

***University House, ANU***

Since the beginning of this year – partly as a result of the Institute's work on academic freedom and commercialisation – questions about the quality of Australia's universities have dominated public debate, from the media to Parliament.

The Australia Institute together with Manning Clark House will be holding a conference about the state of Australia's universities which will be a landmark event in Australian's debate about the role and future of our universities. High profile speakers will focus on the threats, contradictions and opportunities for contemporary universities in a changing world.

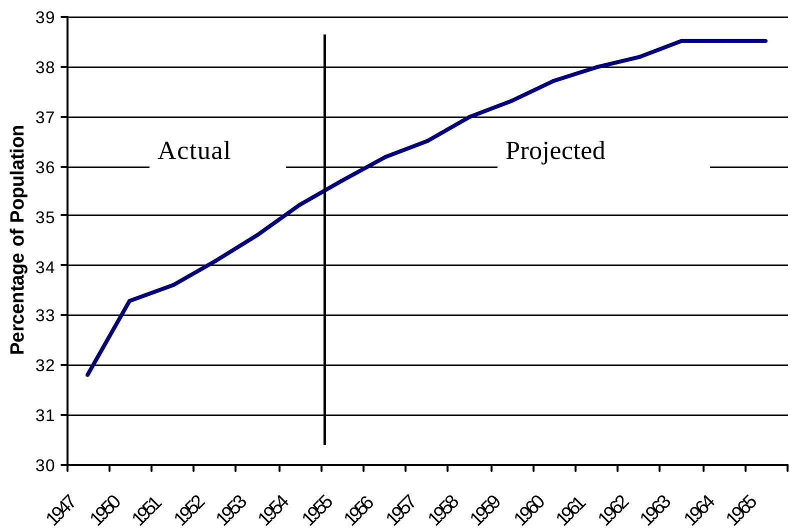
A conference brochure is enclosed in this newsletter. For further information, please phone Aine Dowling on 02 6249 6221.

# The Youth Explosion! Drastic measures required

***It is often argued that population ageing presents a looming crisis for Australian social and economic policy, with predictions of catastrophic economic and social consequences unless drastic reductions in public expenditure and increased self-reliance are urgently implemented. Here, Pamela Kinnear and Clive Hamilton consider another period of momentous demographic change, the baby boom, and the alarming consequences that could***

Since the end of the War only ten years ago, Australia's population structure has undergone a dramatic change – an explosion of the children! A sudden increase in the birth rate along with falling infant mortality has resulted in what can only be described as the beginnings of a boom in the youth population. While in many ways the boom is to be welcomed – for it reflects a renewed optimism for the future along with advances in public health – it should also sound alarm bells for planning authorities and political leaders.

**The baby boom: Percentage of the population aged 0-14**




Already there is evidence of a disturbing rise in the youth dependency ratio. In 1947, the ratio of people aged 0-14 to people of working age population was 0.37, but by last year (1954) it had reached 0.45. It is projected to rise even higher over coming years to around 0.50 by the early to mid-1960s.

This ratio underestimates the true extent of dependence as only half the working age population – men – actually contribute to the revenue base that must fund the expanded services for our growing youth population. As a society we face a difficult choice: whether to encourage women to enter the workforce thereby to expand the tax base, or to encourage women to stay at home and provide the mother's care that all children need and thereby relieving pressure on the public purse.

At this point in time, there is no reason to expect that the growth in the youth population will not continue. Indeed, by the time this generation of young people reach their reproductive years, a new and larger generation will be born. All Australians were deeply shocked at the astonishing success of the Japanese armed forces (and indeed at the beginning of the war signs of defeatism and betrayal even infected the most senior levels of government). Japan has been defeated, but a new peril has appeared on the horizon. A larger population is Australia's best defence against the incipient imperialism of Red China.

But the baby boom will inevitably give rise to severe strains on the fiscus, with demands for expensive public services such as hospitals, schools and welfare support. Public revenues have only recently been under heavy pressure from war-time and post-war recovery needs, and the baby boom is financially unsustainable without a radical change in attitudes.

Put simply, the public purse is simply not deep enough to fund new demands for education, health care and social welfare payments. There is no alternative but for governments to discourage widespread expectations of public support and promote policies that encourage greater self-reliance.

Public spending on education, health and social security are already growing at alarming rates. In 1948, expenditure on education as a percentage of GDP was 1.7 per cent, but by last financial year it had risen to 2.2 per cent. Projections by the Government's National Commission of Audit suggest that it will reach almost 7 per cent within 20 years. This is obviously unsustainable.

Instead of expanding the public school system, education policies must be directed towards encouraging parents to send their A pru

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# ‘Very much obliged’ – mutual obligation, superannuation and prudential regulation

***Against the background of the HIH insurance disaster, the generous new concessions to so-called self-funded retirees in the latest Commonwealth budget raise new and compelling questions about adequacy of prudential regulation of Australia’s increasingly privatised pension system. With massive, government-supported expansion of private superannuation in recent years, does government and the industry have a ‘mutual obligation’ to guarantee the safety of superannuation Investments which Australians have been compelled to make from their wages and taxes? Julie Smith provides some answers.***

Australia’s public age pension was introduced soon after federation, and reflected the concept of Australian citizenship, that a person’s contribution to the development of the country entitled them to security from poverty in infirmity or old age. Over the next several decades Australians firmly rejected proposals for national insurance schemes. During the 1930s when the Lyons government proposed replacing the age pension, the Labor Party expressed its ‘utter condemnation’ of the proposed contributory scheme.

In contributory schemes, market earnings or cash contributions determine entitlements. The more you contribute, or the higher your earnings, the more you are paid in retirement. The contributions citizens make to society during their working life are only valued if based on market activity.

“**those with private superannuation now enjoy tax concessions costing around $10 billion annually.”**

The Menzies government abandoned support for ‘the contributory principle’ for pensions in the early 1960s, in part because overseas schemes were proving very costly. Wartime extension of income taxes to low wage earners had also meant taxation was already ‘broadly contributory’.

Compulsory super was introduced by the Labor Government in the 1980s, and embraced by the Howard Government. The latest budget extends existing fiscal privileges for private superannuation. Far from being ‘self-funded’, those with private superannuation now enjoy tax concessions costing around $10 billion annually.

**This is producing the ‘apartheid’ system of retirement income support evident in this year’s Budget**

Unlike in other countries, where public subsidies for social insurance aid those with inadequate market incomes such as the unemployed or invalid, or non-earners engaged in unpaid or caring work, much of the present public subsidy of private superannuation in Australia goes to high income earners. Even in this International Year of the Volunteer, only market activity counts, and unpaid work, whether it be raising children or running Meals on Wheels - earns no credits to retirement income. This is producing the ‘apartheid’ system of retirement income support evident in this year’s Budget - a parsimonious, flat rate public pension received mainly by lower socio-economic groups and women, and the so-called ‘contributory’ but highly subsidised, dignified private system, occupied mainly by high income or professional males.

But the most striking and worrying feature of Australia’s system is that unlike overseas, Australians are compelled to contribute to **private** superannuation funds, rather than to a **public** scheme.

**HIH and Super funds.**

The HIH insurance disaster suggests that the growth of superannuation has outstripped the capacity of the regulator, the Australian Prudential Regulation Authority, to ensure it is safe. In these circumstances, the more reluctant of Australia’s coerced contributors to superannuation funds might reasonably ask about the government’s obligation to guarantee their private pension if their fund goes ‘belly-up’ before they retire.

With the current tax concessions to the industry arising from the days when funds were compelled to invest in-low interest government loans, the wider public might also ask what the industry now offers as *quid pro quo* for its fiscal privileges.

It is mainly lower income earners who feel the impact of compulsory superannuation, as they are the ones compelled to save more. The better off can merely rearrange their savings to get maximum tax benefits from superannuation, and save less in other forms, or adjust their consumption patterns by borrowing.

This creates a worrying injustice in the wake of the HIH debacle and the regulatory deficiencies thus exposed. Poorer households traditionally prefer interest-

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‘Very much Obliged’

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bearing accounts or home purchase, emphasising safety and accessibility for their assets. Through compulsory superannuation, the government now forces these workers to risk their limited savings in private superannuation funds, in assets that are riskier and less liquid than they may quite prudently choose themselves.

By moving taxes off-budget through compulsory levies for private superannuation, the importance of the citizenship principle in financing and entitlement to our social security system has been devalued and diminished. Harnessing the government’s taxation powers in the interests of super funds has also meant that potential tax dollars are directed to private funds rather than the public purse at a time of fiscal stringency.

But an equally compelling issue arises from the privileged role given to **private** superannuation funds in Australia that of government and industry’s ‘mutual obligation’ to the public for imposing compulsion and restricting choice.

# gpionline.net

In December last year the Institute launched its new website www.gpionline.net, an interactive site designed as a research and educational tool. Since its launch the site has received close to 60,000 hits, including many from overseas (notably Canada). Several university courses are using the website as an educational device to explore questions of growth and welfare and the costs of environmental damage.

As this suggests, the GPI has sparked widespread interest from a broad range of people, Some independent film-makers are making an educational video built around the GPI for distribution through Australian high schools.

The 2001 Commonwealth State of the Environment report is also including a discussion of growth and well-being incorporating the GPI graph. The Institute is discussing the possibility of state GPIs with State governments.

Work on the GPI in North America continues to receive strong support. The following quotation used in the New York Times reminds us why:

> “We had better not lose sight of the fact that our wealth and our comfort are derived from a combination of natural resources – soil, water, air, forests, oceans, mineral deposits, climate – and the skill and ingenuity with which we utilize and manage those resources. If we neglect or abuse those resources, we undermine our prosperity.”

Eric Davidson, *You Can’t Eat GNP* (Perseus Books, 2001), quoted in *The New York Times*

*Blair’s Britain: An Insider Speaks Out*

## “Lessons For Labor”

Michael Jacobs is the secretary of the British Fabian Society and a prominent New Labour identity. Hot on the heels of the British election he will be in Australia to meet with Labor frontbenchers to discuss policy direction, particularly environmental policy. His only public speaking engagement in Sydney is at Gleebooks, 49 Glebe Point Road, Glebe on Tuesday 26th June at 6.30 pm. For details contact Harold Levien at haroldlevien@bigpond.com or phone 9371 4136 by June 22.

**The Youth explosion!**

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dent government will encourage a shift away from public hospitals and health care services towards private alternatives, especially as respected economists have now demonstrated beyond any reasonable doubt that public health care is wasteful. Moreover, since it is clearly in the interests of parents to vaccinate their children against infectious diseases such as polio and whooping cough, the current trend towards universal immunisation is an unnecessary public subsidy for what is properly a private decision.

Spending on social welfare is also careening out of control as child endowment payments grow in step with the birth rate. Governments must consider tighter means testing of child endowment payments as well as reviewing the long-term viability of the endowment scheme in light of overall economic performance. After all, when we compare the generosity of our welfare system with those of our trade competitors (an exercise for which we must thank the Commission of Audit), it is apparent that we are living beyond our means.

In short, in the face of the popular clamour for greater spending on education, health services and social support, the public must be educated to understand that it simply cannot have everything. If people decide to have more children, as they manifestly have done, then they must have the maturity to accept the responsibility that goes with parenthood. Citizens must learn that governments cannot do everything and that expecting otherwise is not only fiscally irresponsible but can only undermine the enduring virtue of self-reliance on which this great nation has been built.

# Taking Climate Change Seriously

***The coal industry has been perhaps the most powerful organised force preventing Australia from taking its obligations under the Kyoto Protocol seriously. Institute Executive Director Clive Hamilton recently addressed an international coal industry conference. This is a part of his speech.***

It is widely believed that reserves of oil will last only another 30-40 years, while the known reserves of coal will last for 200-300 years. If all of the known and hypothesized deposits of coal and oil were extracted and burned then the concentration of carbon dioxide in the atmosphere would increase six-fold.

As the Kyoto Protocol is designed to begin a process that will prevent a doubling or, at worst, a trebling of concentrations, it is clear that, at some point, a decision must be made to leave large amounts of exploitable carbon in the ground.

Many people find it hard to accept the conclusion that in order to prevent potentially catastrophic climate change we must stop burning fossil fuels. But this should not cause too much alarm; after all, we leave some exploitable reserves of uranium in the ground because we have serious reservations about the dangers of its escape into the atmosphere. Nor do we clear every forest simply because it is there.

**President Bush's precipitate repudiation of the Kyoto Protocol may be the last hurrah of the fossil fuel lobby.**

The problem for the coal industry is very apparent. Measured in terms of carbon emissions per unit of energy delivered, coal is the worst of the fossil fuels and fossil fuels are the principal culprit in climate change.

The coal industry has not yet faced serious corporate opposition to its lobbying on climate change, but that is now changing. Implementing the Kyoto Protocol and its much more stringent successors is strongly in the commercial interests of some powerful business sectors – including the natural gas industry, the burgeoning renewable energy and energy efficiency industries, the global insurance industry and the more technologically advanced segments of the auto industry. President Bush's precipitate repudiation of the Kyoto Protocol may be the last hurrah of the fossil fuel lobby.

## Deep cuts

It is easy to become caught up in arguments over the detailed definitions and proposed loopholes in the Kyoto Protocol and to forget that its implementation would be no more than a small first step on the path to achieving a safe level of global greenhouse gas emissions.

While climate scientists have made it clear that in order to stabilise climate change emissions must be cut by 70 per cent or more the Protocol would require industrialised countries to cut their emissions by a mere 5.2 per cent.

From this perspective, last November's conference in The Hague can be viewed as a drawn out squabble over whether countries can avoid undertaking emission cuts that in themselves would make little difference (although it remains true that targets in subsequent commitment periods ought to make real inroads).

One of the more significant strands of debate now emerging is a proposal for 'deep cuts', emission cuts of 60 per cent or more by around the middle of the century. Such proposals describe detailed energy scenarios designed to achieve deep cuts including a range of energy efficiency measures and greatly extended use of renewable energy. The most compelling is by the UK Royal Commission on Environmental Pollution. Its report, released months before The Hague, recommends that:

> The government should now adopt a strategy which puts the UK on a path to reducing carbon dioxide emissions by some 60 per cent from current levels by about 2050.

While there is no time to go into detail, we can make several broad observations about what will be required in the longer term to minimise the dangers of severe climate change.

1. Global greenhouse gas emissions will need to be reduced to around 20-30% of their current levels.
2. In describing energy scenarios, the first consideration is the rate of growth of demand for energy, which in turn depends on the rate of economic growth and the rate of progress in energy efficiency. Demand management will be vital to any long-term policy.
3. Renewable energy will be the principal source of electricity and its rate of adoption will depend on the rate of fall in unit costs and the extent of taxation of carbon fuels.
4. Energy used for transportation will be based on hydrogen.
5. Coal will play a significant role in providing base-load

# INSTITUTE NOTES

**New Board Member**

The Institute warmly welcomes Professor Meredith Edwards to the Board. Professor Edwards is Deputy Vice-Chancellor of the University of Canberra and a former senior public servant.

**Farewell**

The Institute is sorry to farewell Richard Denniss. Richard has been with us for just over twelve months and has been a great asset to the Institute as well as being terrific to work with. Richard is taking up the position as Economic Advisor / Chief Advisor to the Australian Democrats and we wish him every success for the future.

**Forthcoming Publications**

✓Centenary of Federation ✓New Families ✓ Population Ageing

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power only if there are cost-effective technologies for the capture of $CO_2$ and its long-term safe storage underground. The need to dispose of $CO_2$ will substantially increase the cost of coal-fired generation.

6. Nuclear power will appear increasingly attractive as an alternative to coal and gas-fired generation, but is the second-worst option.

7. Coal or gas-fired generation may survive in the longer term as a stand-by source of electricity to meet periodic shortfalls when renewable sources such as wind and tidal power are at a low point or to meet peak demand in very cold or very hot periods. Fossil fuels may thus become a reserve source of energy.

Studies such as those by the UK Royal Commission are extremely important because they show what is possible with some planning and political will. While on the one hand the emission reductions mandated by the Kyoto Protocol are seen by some to be too difficult to meet, there is a sense in which they are in fact too small to be achievable. Cuts in the order of a few per cent turn out to be easy to meet through sinks, additional activities and flexibility mechanisms such as CDM. In other words, they are small enough to avoid through loopholes.

Deep cuts force us to imagine energy economies radically different from the present ones. Such a change also has the effect of engaging the public in a serious debate about transformation of the structure of the economy in a low-carbon future. Although the scenarios vary, one thing is

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**Banksia Awards 2001**

Institute Director Clive Hamilton was recently nominated for the Prime Minister's Environmentalist of the Year Award. He was one of six finalists. The others were: Professor Peter Cullen, Conservation Volunteers Australia, Earthwatch Institute, Olympic Landcare, and The Gould League.

The Banksia citation for Dr Hamilton drew attention to his pioneering work in establishing The Australia Institute and his leadership in environmental policy formation. The citation also noted that Dr Hamilton's work had raised the level of debate in Australia on a series of fundamental environmental issues including climate change, environmental taxation, the economics climate environmental accounting and measuring progress.

Clive Hamilton's book on climate change policy in Australia, *Running from the Storm*, will be published by University of New South Wales Press in 2-3 months.

The Award was won by Professor Peter Cullen.