

Health Economics - Should the Government assist in providing allied healthcare?

Background

In Australia, you have two options for health insurance, Medicare or a private insurer such as Bupa or HCF. Every Australian citizen receives Medicare but not all Australians are content with the minimal health care and no allied health care services being provided by Medicare. Despite this as a Medicare patient you are given free or greatly lowered costs for any medical issues in public hospitals but you are often put on waiting lists as the hospitals are operating at 100% capacity and even emergency departments can have up to a 6 hour wait.¹ There is little freedom of choice with public health, as you are not given a choice as to what hospital or doctor you wish to be treated by.² With an ageing population the Australian health system is coming under a lot of stress. With this incredibly large sum of money being spent on the health system it is hard to say who should be paying for it and what percentage of costs if any the government should be covering. As the population grows older the more money the government will have to continue to spend more and more on healthcare when money is desperately needed in other businesses due to COVID-19. Although the Australian Government does spend a large amount of its resources on health (Medicare) this still doesn't cover allied health services. This consists of things such as physiotherapy and Dentists people who are qualified health professionals but are not doctors or nurses. These health services are still incredibly important for maintaining your healthiest self and we will be exploring whether the government is neglecting them or not?

Government spending on health

Government spending on health in 2018-19 was a total of AU\$195.7 billion³, equal to \$7,772 per person including an increase in hospital expenditure from \$2,851 per person to \$2,786.⁴ Government spending on health actually decreased in 2019-20⁵, with just AU\$115 billion spent on the health sector⁶. This was rather unexpected for the market as it was the start of the COVID-19 pandemic and therefore assumed there would be more spending on health, especially hospitals resources as they would have been expecting a large number of patients. This information can be misleading though, as although the Government has spent less in total on health, you can see in the table below that they are actually spending a greater percentage of their total budget on health, as the Government has less available spending due to low consumer confidence and less spending and having to spend great amounts of their budget in stimulus packages.

¹"Ronald Donato interview." 29 Jan. 2021,

²"Medicare Vs Private Health Insurance: What's The Difference?." 7 Sep. 2020, <https://www.canstar.com.au/health-insurance/medicare-vs-private-health-insurance/>. Accessed 6 Sep. 2021.

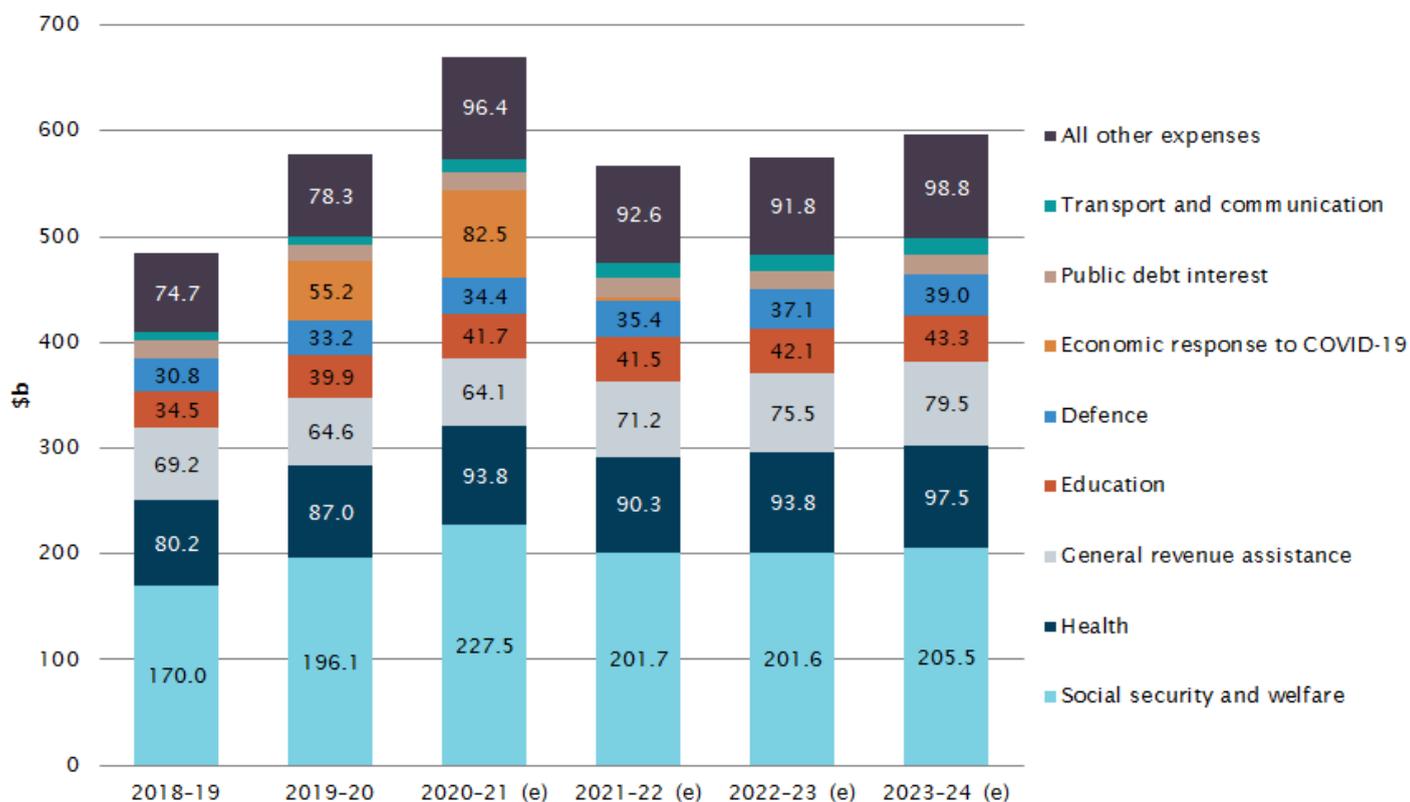
³"Health expenditure Australia 2018-19, Summary - Australian" 28 Oct. 2020, <https://www.aihw.gov.au/reports/health-welfare-expenditure/health-expenditure-australia-2018-19/contents/summary>. Accessed 14 Sep. 2021.

⁴"Governments spend billions more on hospitals than general practice." 29 Jan. 2021, <https://www1.racgp.org.au/newsgp/professional/governments-spend-billions-more-on-hospitals-than>. Accessed 6 Sep. 2021.

⁵"Health expenditure Australia 2018-19 - Australian Institute of Health" 17 Nov. 2020, <https://www.aihw.gov.au/reports/health-welfare-expenditure/health-expenditure-australia-2018-19/contents/data-visualisation>. Accessed 6 Sep. 2021.

⁶"Governments spend billions more on hospitals than general practice." 29 Jan. 2021, <https://www1.racgp.org.au/newsgp/professional/governments-spend-billions-more-on-hospitals-than>. Accessed 7 Sep. 2021.

Figure 1: Australian Government expenditure by function



The extent of the economic issue in Australia and the extent to which it has changed in recent times.

As stated earlier Australia and Medicare covers the consumers health care costs when they are in medical need for doctors or nurses. But unfortunately not everyone's health needs can be met by a doctor or nurse as they may need to see a dentist or dietitian in which the Government does not cover the cost of. Australians spent an average of AU\$424 per capita on dentistry alone in 2017-18⁷ and still may have had to spend on health issues for things such as physiotherapy or dietitians or other health clinics. In 2015-16 the total spent on dental care was AU \$9.9 billion, 58% of which Australians had to cover with out of pocket spending⁸. Therefore 44% of Australians without insurance avoid going to the dentist, because they feel as though they don't have the adequate income. This suggests 5.7 million Australians are living with an oral or dental health issue, greatly damaging Australia's aggregate health outcomes.⁹

Benefactors and disfavorers of government providing allied healthcare

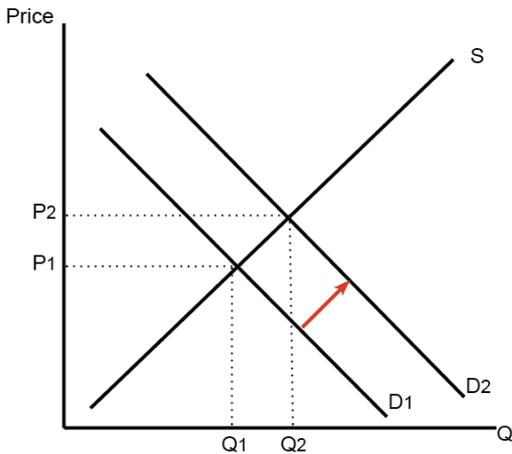
Winners: The clear winners of the government providing or assisting with allied healthcare would be the private firms who provide allied health care to their consumers. If allied services were free or more affordable that would see the other winner of this change: more households opting into using them in an attempt to benefit their health where they may have ignored the issues previously as they didn't have the consumer confidence or didn't think they had the adequate income. Therefore the firms will have more customers and greater revenue along with Government funding in Figure 2.

⁷ "Oral health and dental care in Australia, Costs - Australian Institute ..." 23 Mar. 2021, <https://www.aihw.gov.au/reports/den/231/oral-health-and-dental-care-in-australia/contents/costs>. Accessed 6 Sep. 2021.

⁸ "The dental divide – and the decay of public dental services - ABC." 20 Aug. 2018, <https://www.abc.net.au/news/2018-08-21/dental-divide-and-the-decay-of-public-dental-services-medicare/10138870>. Accessed 7 Sep. 2021.

⁹ Ibid

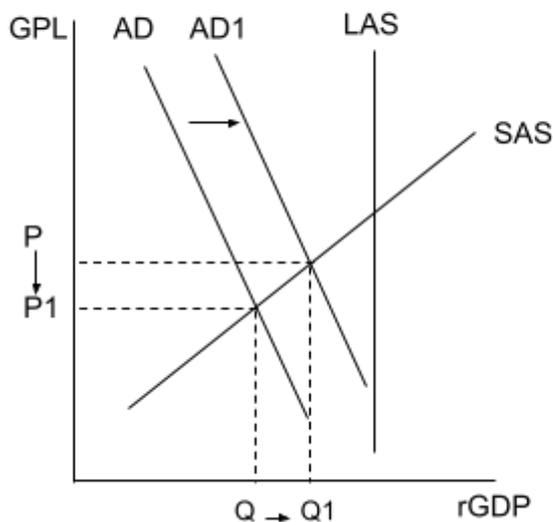
Figure 2: Increase in demand



(Figure 2)As an increase in demand for allied health care services if the Government were to cover these costs. Supply will expand as allied health care services would express their need for more qualified employees and therefore more people may choose to study these topics and go into these fields . An increase from Q1 to Q2 also come as a result of increased demand.The Government still covers the price despite it also continuing to increase along with the demand

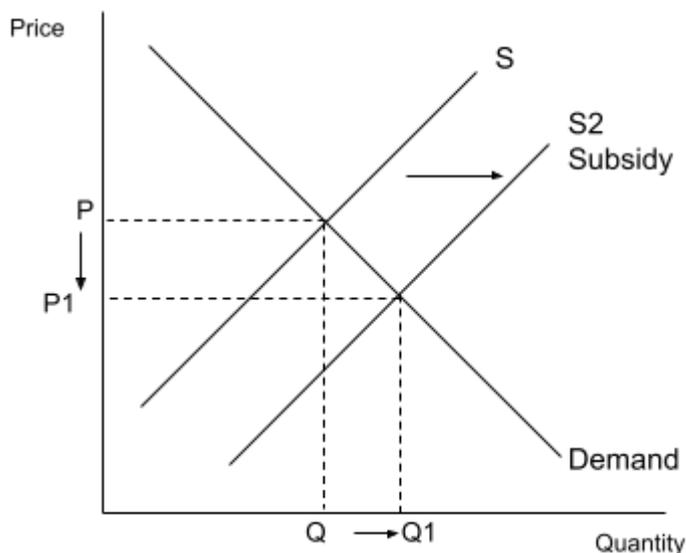
Losers: The losers of the government providing allied healthcare is the government as depending on the amount they chose to cover this could cover a large percentage of their GDP expenditure and may not create as much tax revenue or have as much of a full economic impact as other things such as infrastructure would have, but can have other positive results such as aggregate health outcomes (life expectancy etc.)

Figure 3:



If the Government were to supply or subsidise allied healthcare, this would obviously result in more people using these health services such as physiotherapy. Doing this will expand the life expectancy of Australians and create more able workers. This will increase the workforce in which they are willing, decreasing the unemployment rate. This has numerous ripple effects in the economy as households will now have more

income because more of them have jobs. Households will have the choice of increasing their consumption or savings or if they have enough expendable income then both.¹⁰ Therefore this will lead to increased revenue in the financial sector and more investment from consumers into firms as households will become stockholders as a way of making maximum profits from their savings. Increased household income and increased household spending also benefits the Government from greater amounts of income tax and more spending leading to more GST (goods and services tax).¹¹



The pre-subsidy equilibrium is seen at the intersection point between the demand and supply curves. S2 is a downward parallel shift for the supply curve by the amount of the subsidy. This represents the government returning a percentage of the sum to the consumers paid for each unit of output sold.

The demand curve expands from S to S2 + subsidy. The new supply curve (S2) and the demand curves intersection represents the new equilibrium and shows the decrease in price which consumers now have to pay and the increase in the quantity of the product being output.¹²

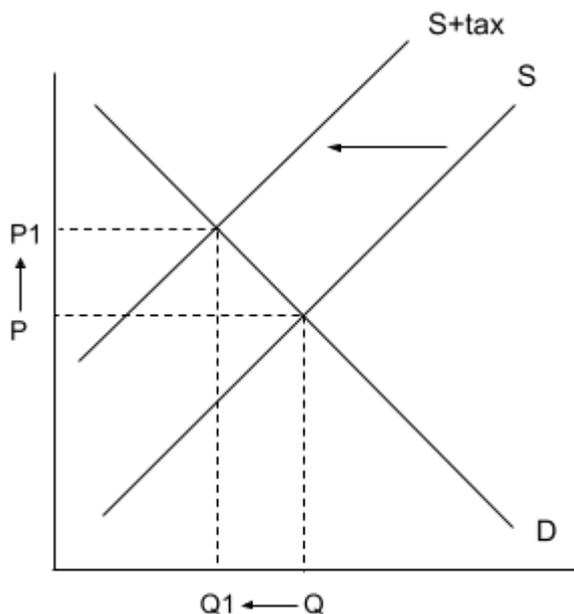
Governments often offer subsidies to lower the cost of needs so that people with less expendable income can afford it and can then use their income on other firms for more luxury wants. The government does provide rebates on private health for those that are eligible. In order to be eligible you have to be below a tier 3 income. The reason for only offering it to people below a tier 3 income is because the people above a tier 3 income can afford to pay for their needs and still have enough to spend on other firms to and producers so they can buy wants. Giving lower class consumers a subsidy when they spend on private health allows them to spend¹³

¹⁰ "The Downside of Low Unemployment - Investopedia." 29 Sep. 2020, <https://www.investopedia.com/insights/downside-low-unemployment/>. Accessed 14 Sep. 2021.

¹¹ Tragakes, E 2011, Economics for the IB diploma, Cambridge Accessed 14 Sep. 2021.

¹² Ibid

¹³ Ibid



The pre-tax equilibrium is seen where the original supply and demand curves intersect on the graph. The S+tax curve is an upward parallel shift from the supply curve by the amount in which it is being taxed. This represents the government taxing consumers for products which they don't want them to purchase.¹⁴ The demand curve stays constant at D and is not affected by the tax. The new supply curve (S+tax) and the demand curve intersection represents the new equilibrium and the increase in price for the product after it has been affected by the tax.¹⁵

Governments usually tax people for products they don't want consumers to buy such as an alcohol tax or a sugar tax but in this instance it is quite the opposite. The Government is taxing people over the age of 21 if they DON'T pay health insurance. The Government does this so they can keep the working population healthy whilst looking to increase the longevity of willing workers ableness and make Australia's aggregate health outcomes such as life expectancy look above standard.¹⁶

Outcome:

It is clear that the Government already does assist consumers with paying allied health care, but for some people this incentive clearly isn't enough as there is still only 53.4% of Australians that are paying for private health insurance.¹⁷ Therefore some of the lower income earners in particular clearly would rather not spend on private health insurance and pay the taxation as opposed to paying the gap of the private health insurance after the rebate. This means that if the Government wants to increase the amount of people who are paying private health they are going to have to create extra incentives. The most effective way to do this would be to increase the tax on not paying private health insurance by 20-25% and then also increase the rebate you receive for paying private health insurance by approximately 10%, so that it is cheaper to pay for the health insurance than it is to get taxed. This would likely result in the Government having to spend a larger percentage of their GDP on health but this is a price they have to pay if they want to increase this the percentage of Australians paying private health insurance and henceforth increase Australia's aggregate health outcomes.

¹⁴ Tragakes, E 2011, Economics for the IB diploma, Cambridge Accessed 14 Sep. 2021.

¹⁵ Ibid

¹⁶ Ibid

¹⁷ "FAQ | Private Healthcare Australia (PHA)." <https://www.privatehealthcareaustralia.org.au/consumers/faqs/>. Accessed 21 Sep. 2021.

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