Health's price must be right

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A just doctor's fee will aid the needy but deter the frivolous, write Richard Holden and Andrew Leigh.

At the core of the Howard Government's plans to reform Medicare is the suggestion that doctors' visits should no longer be free. The Government is right to try to tackle this problem. But its prescription is flawed.

At the heart of the problem is that in health care, as with other goods and services, free provision leads to overconsumption. As health researchers have shown, cost-less medical care means that people go to the doctor even when they don't need to, driving up the cost for all of us.

But there's a better way of operating a health system, and the change should hardly hurt at all. As economists have shown, the ideal model involves a small co-payment - not enough to put a dent in your weekly budget, but enough to make you think twice before you call the doc. And the idea is hardly radical. Countries with a co-paying public health system include Austria, Belgium, Finland, France, Germany, Greece, Iceland, Ireland, Italy, the Netherlands, Norway, Portugal and Sweden.

So if a co-payment is a good thing, why not applaud the Government's plan? The problem is that, as it stands, the proposal is to allow GPs to charge any co-payment amount. It is therefore likely that it will end up as the difference between the bulk-billing rate and the average non-bulk-billing rate: $12.

The Howard Government argues that the benefits of such a scheme are that it will help pay to raise the wages of rural doctors - but it is unclear why urban battlers should bear the brunt of this change. Although pensioners are exempted, low-income workers will be most likely to cut back on visits to the doctor. For them, $12 is a reasonable chunk of change - about one-seventh of a day's earnings for a minimum wage

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worker. And since 71 per cent of Australians go to bulk-billing GPs, this is a drastic reduction in equity.

What is the right co-payment rate? The key with any co-payment system is to set it at a level that deters frivolous visits, but doesn't run down preventive healthcare. Catching diseases such as cancer and heart disease early dramatically improves the likelihood of survival, and is far less costly.

The Howard Government should learn from the successes and failures of its predecessors. In 1991 Australia introduced the perfect co-payment system - $2.50 - with exemptions for certain groups. This was widely recognised as effective in keeping down excess visits. Yet it was scrapped in 1992, an unlikely casualty of the Hawke-Keating leadership battle.

Converting the 1991-92 scheme into today's money would be equivalent to $3.50, substantially less than the current Howard plan. It would be enough to deter frivolous GP visits, but not enough to limit genuine preventive care. Everyone, including pensioners, should pay it, with welfare benefits and pensions increased to compensate for the extra burden. Those who are chronically ill could receive an exemption from the co-payment altogether.

Finally, the Government should indeed provide its $18,500 incentives for GPs in regional areas. But this should be funded by an increase in the Medicare levy, rather than a dangerous and unfair cross-subsidy from battlers.

The Government has correctly diagnosed two of our health system's ailments - the lack of a co-payment and the lack of incentives for doctors to move to the bush. But the medicine it has prescribed may do more harm than good. It's time we asked them for a second opinion.

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