

6 Vincent Street,  
Balmain,  
NSW 2041  
robert.marks@gmail.com

Monday, 2nd June, 2014

## The Budget

As are many Australians, I am concerned with the economics and equity of the budget. There is, it is true, a medium-term problem with Australia's public finances. It is not (yet) a crisis, and we still retain our AAA credit rating. But, if revenues do not pick up with increased economic activity, as previously forecast, then now will have been the time to start rebalancing, by raising the revenue (I agree with indexing the fuel excise levy with inflation) and by cutting expenditures, both current and promised (such as the PM's version of the PPL).

The expenditure cuts and revenue increases announced by the Treasurer concern me greatly. With two kids in their twenties, I am particularly worried by the six-month gap before dole payments for the young: they are caught — when not on benefits, they can't obtain tuition concessions, but if not studying and without work they are to be denied any support. Just how are they supposed to live for six months if their parents, for any reason, are unable to support them? (My kids are fortunate that I could do so.) This measure seems particularly cruel. It is not enough for the Treasurer to say "well, I'd have a job" when confronted with this hasty policy.

The \$7 Medicare fee will not contribute to deficit reduction, as \$5 of the \$7 will go to the promised medical research foundation and will not pay for Medicare services. Research into diseases is admirable, and more support for our medical researchers is welcome, but not at the cost of our general health — this policy, by discouraging the poor, and the sick, and the elderly from seeking medical attention, will, in the long run, contribute to worse health and, ironically, higher costs, since prevention is cheaper than cure, especially if the GP does the prevention, but the cure occurs in hospital. This policy is callous and ineffective.

Moreover, if the \$7 is meant to make Medicare more sustainable, the only conclusion is that the government is actively planning for Australians to go to the doctor less often, since only \$2 extra per consultation goes to the doctor. Instead, it seems ideological — "they don't value what's free" — forgetting that we all contribute to Medicare through the income tax levy. If the idea was to reduce the demand for doctors' services, then where is the input from the medical economists, experts who have spent their careers examining these policy issues? As for the \$7 charge for pathology tests and other follow-ups suggested by the doctor, this policy makes no sense: these services are not like the Treasurer's beer and cigarettes, the uninformed patient must follow his or her doctor's advice. Prohibiting bulk-billing of these items is purely ideological, and has no impact on the sustainability of Medicare (let alone the budget deficit)

unless the idea is to discourage their use.

Australia has one of the longest average life spans on earth, partly achieved through forty years of Medibank and Medicare, our universal health insurance scheme. No one doubts that health care costs are rising, not, in general because people are less healthy or living longer, but because the technology arising from medical research is increasingly expensive: compare X-rays with CT scans, with Nuclear Magnetic Resonance, with PET scans. But actively discouraging Australians from seeing their doctors is not the way to cut costs.

I accept that each incoming government will rebalance the budget, to support those activities (such as fighter jets and new roads) that are closest to its agenda, and reduce or eliminate support for the programs of the previous government that it deprecates. Such rebalancing is natural and healthy for the democratic process. But this budget goes way beyond the normal rebalancing of such changes, in this economist's opinion.

There are many aspects of the budget I have not covered, including the fact that with Peter Costello's reforms in place, there were no surprises in Australia's public finances for the incoming government, no "black hole." As I said above, there is a problem with Australia's public finances, but it's not a crisis. I would give this budget a B- for reforms and a C- for fairness.

I finish by noting that I personally benefit greatly from the tax treatment of superannuation, but I would happily pay tax on my payments if it shielded the CSIRO from swingeing cuts and assisted Australia to become healthier, smarter and better educated.

Robert Marks  
Emeritus Professor of Economics at UNSW and Professorial Fellow at the  
University of Melbourne.