TARGET30

REDUCING THE BURDEN FOR FUTURE GENERATIONS

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THE CENTRE FOR INDEPENDENT STUDIES

T30.05

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Emergency Budget Repair Kit

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Contents

Introduction

In the run-up to the 2013 general election, leading figures in the Abbott government repeatedly described the condition of the federal budget as an emergency.

> *There is now a budget emergency.*
>
> — Prime Minister Tony Abbott (then in opposition)[1]

> *[The] Economic Statement shows that the budget emergency is well and truly upon us.*
>
> — Treasurer Joe Hockey and Minister for Trade and Investment Andrew Robb (then in opposition)[2]

And while the Coalition has toned down its rhetoric since coming to office, the new government clearly believes the budget is still in a bad shape and in need of immediate repair.

> *We first of all have to stop the haemorrhaging in the budget and we will make the decisions to stop the haemorrhaging in the budget.*
>
> — Treasurer Joe Hockey[3]

> *We are dealing with the budget emergency ...*
>
> — Treasurer Joe Hockey[4]

The August 2013 Economic Statement estimates that the Underlying Cash Balance for the 2013–14 Budget will be a deficit of $30.1 billion and the fiscal balance a deficit of $25.6 billion. For 2014–15, the Underlying Cash Balance is estimated to be a deficit of $24 billion and the fiscal balance a deficit of $22.2 billion.

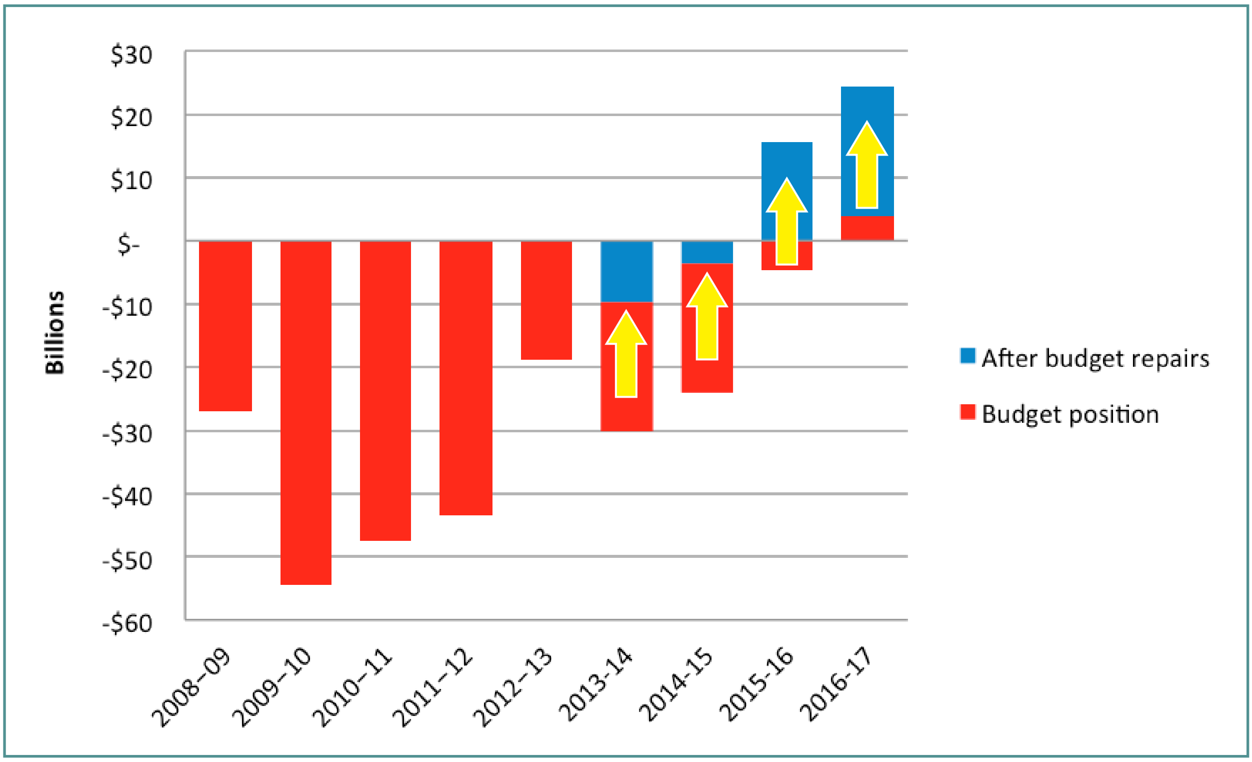
Whether this constitutes a budget emergency is open to debate; however, it is clear there is a troubling trend of recurrent deficits and increasing debt.

While the government has announced plans to address the budget deficit via a commission of audit, the commission cannot fix the budget problems in the short term because the government has committed to take the commission's recommendations to an election before implementing them.

The commission does have a valuable role as a circuit breaker to compel politicians to re-examine the role of government in society. If there is political will to follow its recommendations, such a commission could make a serious difference to the effectiveness and efficiency of government in the long term.

Yet, having repeatedly told the Australian people there is a budget emergency, the Coalition must now act decisively and quickly to identify and resolve the cause of Australia's budget problems. Proposing to wait three years to implement solutions runs contrary to the appellation of 'budget emergency.'

Figure 1: Repairing the budget



Source: *Final Budget Outcome and Economic Statement 2012–13* (August 2013).[6] These estimates represent a rough guide to the savings possible from implementing the solutions suggested in this report. Modelling the impact of these changes is beyond the scope of this report.

Apart from following up on its own stated belief of a budget emergency, there is another reason the government should reduce its spending sooner rather than later. Regardless of whether one believes there is a short-term budget emergency, there is no doubt Australia must prepare now for the grim fiscal challenges we will face in the years ahead, particularly from an ageing population and rising health care costs.

And the best way to ensure current budget stability and future prosperity is by cutting wasteful and ineffective government spending. Low-priority spending programs and poorly targeted initiatives should be cut as soon as practical.

The first four TARGET30 research reports proposed savings measures along those lines to avoid the long-term budget crisis.[5] This fifth report estimates the potential budgetary impact of some of the savings presented in the previous TARGET30 reports and presents other savings to return Australia to the black before the next election. Future reports in this series will address savings measures for state governments and other potential avenues of savings for the federal government.

The evidence-based steps outlined in this report will generate ongoing savings of up to $20 billion a year, repairing Australia's bottom line in the short term and preparing us to meet the looming budgetary challenges over the next few decades.

In addition, reducing the burden of government will unlock a host of economic and social benefits such as increased economic growth and lower taxes, a more robust charitable sector, and greater personal responsibility.

The alternatives to cutting wasteful spending are to either raise taxes or pile on even more debt.

Raising taxes will put even greater pressure on household budgets, have a negative effect on economic growth, and cause deadweight loss. With government spending across all three tiers exceeding $500 billion and growing rapidly, tax increases should only be a last resort.

Continuing to run deficit budgets will saddle future generations with huge debt burdens and lower economic growth. Government debt should not be used to fund wasteful spending programs. Raiding the country's future prosperity to pay for short-term consumption is unconscionable.

The TARGET30 'budget emergency' solutions cover multiple areas of government spending and minimise the impact of the savings by spreading them across a larger group. They target ineffective programs (such as industry assistance and the Schoolkids Bonus), expensive programs that aren't good value for money (such as Better Access to Mental Health rebates and GP Management Plans), and areas of duplication (such as SBS and the federal departments of Agriculture and Education).

This is not an exhaustive list of potential savings options. It is only the first step towards reforming the relationship between Australians and their government.

Table 1: Items in the Emergency Budget Repair Kit

Budget fix	Annual savings ($millions)
#1 Reform the Family Tax Benefit	5,900
#2 Shut down or sell SBS and ABC3	250–350
#3 End corporate welfare	8,000
#4 Abolish the federal Department of Education	130
#5 Stop rorting by providers and consumers in health	720
#6 End duplication in Agriculture†	650–1,220
#7 Bring back Medicare co-payments	1,460
#8 Curb indexation of income support payments	1,000–2,000
#9 Stop paying for ineffective mental health rebates	630
ESTIMATED TOTAL SAVINGS§	**$18.7 billion–$20.4 billion**

† Some of the research programs run by the Department of Agriculture, Fisheries and Forestry are included in estimates of industry assistance assessed in Budget Fix #3. A specific breakdown of which programs are included and excluded is not possible based on publicly available data—so the exact overlap is unclear. The overall savings have been reduced by between $80 million and $650 million to account for this.

§ The savings identified are estimates of ongoing annual savings based on either the most recently available data (2012–13 or 2011–12) or current budget estimates—in all cases, the time period of the data is indicated. One-off costs associated with implementing savings measures (such as redundancy packages for workers in the departments being closed) are not included in the calculations.

Budget Fix #1

Reform the Family Tax Benefit

Trisha Jha
Policy Analyst, Social Foundations Program

Key recommendations

- abolish Family Tax Benefit Part B
- redesign Family Tax Benefit Part A to reduce middle-class welfare and insulate low-income families from the abolition of Family Tax Benefit Part B
- abolish the Schoolkids Bonus

How Family Tax Benefit Parts A and B work

FTB Part B is a per family fortnightly payment of $146.44 where the youngest child is under 5 years, or $102.20 for families where the youngest is aged between 5 and 18 years. FTB Part B can be paid alongside FTB Part A, which is a per child fortnightly payment of up to $224.[7]

The maximum rate of FTB Part A is available to families with a household income of up to $48,837. Income cut-off thresholds differ and depend on the number and age of children.[8] FTB Part A cost $14.3 billion in 2012–13.[9]

FTB Part B is payable to single parents earning up to $150,000 per year, and to couple families where the primary earner makes up to $150,000 per year and the secondary earner makes up to $26,390 (if the youngest child is below 5 years) or $20,532 (if the youngest child is between 5 and 18 years old) a year.[10] In 2012–13, FTB Part B payments cost the government $4.5 billion.[11]

Many families who receive FTB Part B are also entitled to FTB Part A—of the total number of FTB Part B recipients, 94% were also receiving Part A.[12] So the secondary earners in most FTB Part B families face high effective marginal tax rates caused by the cumulative withdrawal of both payments at certain income levels.[13]

Family Tax Benefit Part B is middle-class welfare

Income tests allow families with a combined income of up to $176,390 to receive FTB Part B payments. These payments begin to taper at 20 cents in the dollar when the secondary earner's annual income reaches $5,183. So a family earning more than $150,000 per year largely from a single income could receive annual welfare payments of more than $4,000 from FTB Part B alone.

To put this into context, the gross income of the median Australian household in 2011 was $64,168.[14] Given the generous income tests, some households receiving FTB Part B earn above-average incomes, and so should be a lower priority for financial support from taxpayers than those on very low incomes. Abolishing FTB Part B would reduce welfare to these middle-class groups and save taxpayers' money.

Redesigning Family Tax Benefit Part A

Abolishing FTB Part B will help reduce overall expenditure, but it would also leave some low-income families worse off. Redesigning FTB Part A to ease financial pressure on low-income families while simultaneously reducing middle-class largesse would address these concerns.

While the National Centre for Social and Economic Modelling found that only $500 million would be saved per year if FTB Part B was restricted to families with a combined taxable yearly income below $100,000,[15] an unacceptably high proportion of expenditure on that program goes to families with an income above the median.

Under the current FTB Part A system, a family can have a combined income of $234,860 (depending on the number and age of children) before the entire benefit is withdrawn.[16] This is made possible by the sliding scale of income limits and a complex four-tiered system of a maximum rate, a part rate, a base rate, and a tapered base rate.[17]

As FTB Part A is designed to assist low income families, the solution is to better target FTB Part A to low-income families in genuine need. If FTB Part A was cut off at a uniform household income level such as the median ($64,168),[18] regardless of the number or age of children, then the savings made from introducing that cap could be redistributed to lower-income families to ensure a modicum of financial security. There are still significant savings to be made from abolishing FTB Part B, and truly needy families won't be substantially worse off.

Dubious benefit of Schoolkids Bonus

The Schoolkids Bonus is a cash payment for parents of FTB Part A-eligible primary and secondary school-aged children paid at the beginning of the school semester into a nominated account,[19] notionally to help parents cover the additional costs of sending their children to school (e.g. books and uniforms). In 2013–14, parents of children in primary school will receive two payments of $205 per child, while parents of children in secondary school will receive $410 per child. These payments are paid in addition to other family payments.[20]

The Schoolkids Bonus replaced the Education Tax Refund in 2012. Under the old system, families could receive a rebate to cover up to 50% of an FTB Part A recipient child's educational expenses upon lodging a tax return. To claim the refund, parents had to provide evidence in the form of receipts for schooling-related expenses. The amount was capped in 2010–11 at $397 for primary school children and $794 for secondary school children.[21]

In 2011–12, when the Education Tax Refund was abolished, the program cost $888 million.[22] In 2010–11, before the refund system was extended to cover school uniforms, it cost $659 million. In 2012–13, the first year of the Schoolkids Bonus, the cost ballooned to $1.4 billion.[23] So millions of dollars are going to families who previously did not see the need to claim expenses.

Although the payment is timed to be paid at the beginning of the school year, there is no requirement to spend the money on schooling-related items. The payment simply increases the disposable income of families of school-aged children: parents receive two payments for the same expense.

Furthermore, the expenditure must be seen in the context of an overall increase in the generosity of family payments over the past decade. Expenditure on the FTB system alone has increased in real terms from $13.4 billion in 2001–02[24] to $18.8 billion in 2012–13.[25] There is little to suggest the need for additional assistance in the form of a cash bonus.

The Schoolkids Bonus has little, if any, relationship to the actual costs of schooling, so the Coalition government's commitment to abolish the bonus is a step in the right direction.

Savings (in 2012–13)

In 2012–13, the government spent $4.5 billion on FTB Part B payments and $1.4 billion on Schoolkids Bonus payments.[26] Scrapping these payments would save approximately $5.9 billion a year based on 2012–13 data.

Budget Fix #2

Shut down or sell SBS and ABC3

Simon Cowan
TARGET30 Program Director

Key recommendations

- sell, incorporate or discontinue SBS radio and television broadcasts and Internet services
- consolidate ABC3 with ABC4Kids into a much shorter programming schedule for children and young adults

SBS duplicates free Internet content

As per section 6(1) of the *Special Broadcasting Service Act 1991* (Cth), the principal function of SBS is:

> … to provide multilingual and multicultural radio and television services that inform, educate and entertain all Australians, and, in doing so, reflect Australia's multicultural society.

While it could be argued that providing these services was a public good in the days before the Internet, multilingual and multicultural radio and television programs are now available freely and in great supply on the Web. In addition, Australian migrant communities can produce their own content online at little cost (many already do). There is also some multicultural content on commercial networks (more so on the ABC). So there is little rationale for government-provided multilingual and multicultural content.

National Indigenous Television (NITV) is possibly an exception and should be moved from SBS, managed by the ABC, and broadcast on ABC3.

Overlap between SBS and ABC

Australia has two publicly funded broadcasters (ABC and SBS) that overlap substantially in content.

The ABC runs a dedicated news channel, ABC News 24, with a nightly world news program (and international news broadcasts), that airs in depth local and national news throughout the day.

Yet both SBS and the ABC produce nightly news programs (SBS also covers world news)—and air

Table 2: Content provided by Australian taxpayer-funded broadcasters

Broadcaster	Television	Radio	Catch-up services	Online platforms
ABC	• 4 stations (ABC1, ABC2, ABC3, ABC News 24) • 1 HD channel	• 4 national networks • 60 local stations • 11 digital channels • 2 international services	ABC iView	ABC Online (news and current affairs)
SBS	• 3 stations (SBS1, SBS2 and NITV) • 1 HD channel	• 3 national stations • 4 digital channels	SBS on Demand	SBS Online (news and current affairs)

current affairs shows in a forum style (*Insight* and *Q&A*); the ABC News 24 also runs a nightly current affairs panel show (*The Drum*). Both SBS and ABC show sport, movies and documentaries.

SBS attracts a much greater share of television viewers in the evening than in the daytime. Evenings are also when SBS and ABC schedules overlap most in type of content (news and current affairs, documentaries and series).

With the massive expansion of free Internet-based radio services, there is little justification for so many government-funded radio stations. Much of SBS' broadcast radio is language-based news services, which can be easily found online.

This is not a critique of the quality of SBS' broadcasting but a suggestion that the channel's content can be found elsewhere at little or no cost, or is similar to the ABC's content.

There is no cogent reason to use taxpayer funds to compete with other taxpayer-funded broadcasters or duplicate content easily found elsewhere. Any existing or commissioned content that can be sold to commercial radio and television should be. The ABC can pick up any remaining content where it is relevant or preferable to existing ABC programming (without increasing its budget). The rest should be discontinued.

ABC coddles children

The ABC has two dedicated programming schedules for children, ABC4Kids (for young children on ABC2 between 6am and 7pm) and ABC3 (for older kids)—approximately 28 hours a day of under 18s programming. This is on top of children's programs on commercial networks, pay TV, and the glut of free online educational and entertainment material. There is no shortage of children's programs.

The government itself recommends that children 5 or younger should spend no more than one hour a day watching TV, and that people 18 or younger should spend no more than two hours a day watching TV, online or playing video games.[27] If the government is serious about its own recommendations, it should drastically reduce the amount of content it provides for under 18s by consolidating the content provided on ABC3 and ABC4Kids into a substantially shorter broadcast schedule (8 hours a day) and free up ABC3 for NITV.

Figure 2: ABC Children's TV schedule versus government recommended viewing time

Source: Department of Health, 'Physical Activity Guidelines,' website.

Savings (in 2012–13)

In 2012–13, government contributed $247.5 million to SBS' budget for ordinary annual services and $3 million for non-operating expenses,[28] and gave $158 million to NITV over five years. Closing SBS will save approximately $250 million a year.

While a precise budget for ABC4Kids and ABC3 is not published, the government allocates $533 million for ABC TV, which has expenses of $631.4 million. ABC4Kids and ABC3 represent approximately one-third of ABC's programming. Cutting 20 hours a day of children's broadcasting will save tens of millions of dollars, maybe even $100 million, a year.

Budget Fix #3

End corporate welfare

Simon Cowan
TARGET30 Program Director

Key recommendations

- abolish all customs duties and tariffs (other than those on excise-like goods)
- end financial assistance to industry

Direct assistance and tariffs hurt both consumers and businesses

The Productivity Commission's Trade and Assistance Review shows one of the negative impact of tariffs on business—tariff assistance of $7.9 billion is counteracted by a $6.8 billion input penalty (the cost of tariffs on imports paid by Australian businesses).

Nor are the benefits spread evenly. The manufacturing sector (which employs 8% of the workforce) receives a net benefit of $5.6 billion, while the construction industry (which employs 9% of the workforce) pays a net loss of $1.54 billion.[31] Services industries (which employ more than three-quarters of the workforce) are net losers from tariff protection of up to $4.5 billion.

Tariffs raise the prices of a particular protected good, meaning consumers must pay more than they otherwise would for that particular good.

The negative impacts of direct assistance policies are also clear. Industry protection must be paid for; as consumers and businesses are also taxpayers, they must bear the costs of protection.

Nor does industry assistance guarantee job protection. The automotive manufacturing industry (which employs fewer than 50,000 people) receives more than $1.1 billion a year in assistance, yet Ford Australia has announced it will close its doors in 2016; Holden Australia and Toyota Australia have announced more than 1,000 job cuts since the start of 2012; and key component suppliers such as CMI, Autodom and APV Automotive Components have gone into receivership.

Government funding for R&D

Government gives funds for R&D directly to companies (or via tax concessions) and indirectly through organisations like the Commonwealth Scientific and Industrial Research Organisation (CSIRO).

Evidence on the effectiveness of such funding of R&D is mixed. There is little evidence that tax credits to fund research by corporations substantially increase total R&D activity, as the tax credit often pays for research that would have occurred without any incentives.[32] In addition, most innovation originates overseas,

> … 98% of the productivity uplift in Australia from innovation is likely to be the result of applying ideas, often sourced from industry, that were first invented beyond Australia's borders.[33]

Who gets industry assistance?

The Productivity Commission has two categories of industry assistance: tariffs (taxes on imports) and direct budgetary assistance (grants, subsidies, rebates and tax expenditures).[29] It does not include indirect assistance such as procurement practices or regulatory measures like licensing regimes.

Eighty per cent of assistance goes to three broad areas[30]—30% to select industries (primarily manufacturing industries); 28% to facilitate R&D; and 22% to small businesses. The remainder goes to sector-wide support, export assistance, and regional structural adjustment.

The Productivity Commission also noted that 'the adequacy of existing program evaluation and governance arrangements is mixed, with some notable shortcomings in business programs.'[34] This indicates that direct government funding of research by corporations is a poor investment of taxpayer dollars.

Commenting on the 15 Rural R&D Corporations, the Productivity Commission said:

> The level of government subsidies for some narrower, industry-focused arrangements is likely to crowd out private activity and produce weaker external benefits outside the supported rural industry.[35]

Although specific analysis of the research undertaken by bodies like the CSIRO or Cooperative Research Centres (CRCs) is beyond the scope of this report, some of the research (e.g. into automotive manufacturing) undertaken by these organisations has a narrow, industry-dominated focus and may represent a subsidy to industry.

According to the Productivity Commission, the funding for CSIRO is adequate and the funding for CRCs should be realigned to reduce 'some of the large rates of subsidy to business collaborators.'

As the R&D tax concession alone exceeds $1 billion a year, $1 billion to $1.5 billion can be saved by diverting R&D expenditure away from industry-specific programs.

Alternatives to cash grants to small business

In Australia, there is significant bipartisan support for small business assistance programs[36] that mirrors trends overseas, particularly in the United States.[37]

Assistance is given in the form of tax breaks for small businesses, grant programs and subsidies, and export development programs. The justification for these subsidies is that small businesses face particular challenges, generate lots of jobs, and encourage economic participation of women and minorities. Evidence supporting the merits of these claims is, at best, equivocal.[38] Moreover, data from small businesses suggest these programs don't address the biggest obstacles to small business success.

The Australian Chamber of Commerce and Industry (ACCI) conducts a quarterly survey of small businesses, asking them to list the biggest impediments to growth. The May survey found that:

> Business Taxes and Government Charges continued to be the number one barrier to small business investment in March for the ninth successive quarter.[39]

In addition, between August 2011 and May 2013, 'Federal Government Regulations' and 'State Government Regulations' each featured in the top 10 fewer than 7 times, with each category being in the top 5 limitations in 5 of the 8 quarters.

These factors were cited much more often than a lack of access to debt, insufficient retained earnings, or skills shortages. Neither government advice on running a business nor the absence of free mentoring services was mentioned in the survey.

This suggests that rather than giving subsidies through an unwieldy bureaucracy, government can drive growth in industry by reducing its own impact on business. To the extent that small businesses benefit from professional business advice, these services are available in the market.

Tariff revenue and offsetting economic growth

In 2011–12, the federal government received approximately $2.9 billion in tariff revenue (less potential deductions). As tariffs cause deadweight loss, they reduce total economic activity, which deprives the government of significant revenue in other areas (especially GST, corporate taxes, and income taxes). Dismantling the government apparatus that administers the tariff scheme would also generate savings.

Without industry assistance distorting the efficient allocation of resources, the economy as a whole will be larger and better off in the long run. It is beyond the scope of this report to assess whether the increases in GST, corporate taxes, and income taxes would offset the loss of tariff revenue; however, sensitivity analysis from the 2013–14 Budget suggests that a 1% increase in real GDP would generate $3.9 billion extra revenue for the federal government.[40] So only a 0.75% increase in real GDP is needed from ending industry assistance and abolishing all remaining tariffs to entirely offset the loss of tariff revenue, a realistic expectation for the medium term.

Savings (in 2012–13)

According to the Productivity Commission, the federal government spends $9.4 billion each year on budgetary industry assistance.[41] Even if $1.4 billion in government R&D funding allocated to the CSIRO (whose total government contribution in 2011–12 was approximately $720 million) and similar organisations for non-industry dominated projects remains, and all other industry assistance is ended, government will still save at least $8 billion a year by ending corporate welfare.

Budget Fix #4

Abolish the federal Department of Education

Jennifer Buckingham
Research Fellow, Social Foundations Program

Key recommendations

- terminate duplicative federal education programs
- administer remaining programs through other federal departments or agencies

Federal funding for schools is a relatively recent development

Before 1964, there was no direct federal funding to schools in the states—only to the Australian Capital Territory, the Northern Territory, and Australia's overseas territories. In 1964, the federal government began funding capital works in schools—science laboratories in Catholic schools initially and libraries and other capital works from 1969; recurrent federal funding to non-government schools was introduced in 1970 and extended to government schools in 1974. In recent decades, the federal Department of Education has devised and administered education programs to promote its own education agenda.[42]

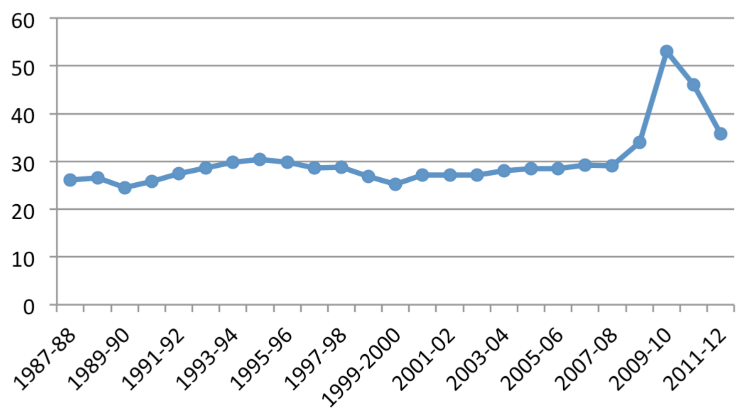
In the last 10 years in particular, recurrent and capital funding from the federal government to schools has increased markedly, both in real dollar terms and as a proportion of all government (federal, state and territory) spending on schools.

Much of this new spending was on federal government-developed, targeted programs that supplement general recurrent and capital spending, such as the National Partnerships, the Building the Education Revolution (or BER, which is responsible for the spending spike in 2009–10), and the Digital Education programs. These programs are now finished, and the funding associated with them will be incorporated into the new Better Schools funding package from 2014.

Dismantle the federal Department of Education

The majority (60%) of the federal education budget is recurrent funding for non-government schools. A further 30% is grants to government schools. The remaining 10% comprises a number of federally administered programs, some of which are due to end in the next year or two, and some of which are

Figure 3: Federal government outlays as a percentage of all government outlays on primary and secondary education, 1987–88 to 2011–12



Source: ABS (Australian Bureau of Statistics), *Government Finance Statistics*, Cat. No. 5512.0 (Canberra: ABS, various years).

funded through the budget forward estimates at least to 2016–17.

Now that the Better Schools reforms have been finalised, 90% of the federal Education budget—recurrent and capital funding to schools—can be administered through Treasury. During the 2013 election campaign, the Coalition had committed to reducing the accountability requirements of the Better Schools policy, so this aspect of the policy should not prevent a transfer of administration.

Many other ongoing programs administered through the federal Department of Education exceed the role of federal government and can be ended. The few significant programs (e.g. Abstudy) can be transferred to other agencies or departments.

Table 3 presents a proposal to dismantle the federal Department of Education and associated savings. Only programs that are ended are calculated as a net saving to government. Programs that are transferred remain as a cost to government but would be administered through a different budget.

This is a conservative treatment of the budget and allows completing big-ticket programs like the construction of Trade Training Centres. So the identified savings by ending existing budgeted programs are not large in proportion to the overall schools budget. Furthermore, some of the programs are already being phased out over the budget forecasts (e.g. Youth Support programs were funded at $127 million in 2012–13 but less than $4 million is budgeted for them in 2016–17).

The unmeasured potential savings of such a reform are substantial, however. Abolishing the federal Department of Education would remove the opportunity and incentive to create new programs to justify employing 1,000 staff who are not accountable to schools or teachers.

The idea of abolishing the federal Department of Education is not new. Australian researchers Brian Caldwell, Julie Novak, and Bronwyn Hinz, as well as US sociologist Charles Murray, have all argued for devolving education functions back to the states.[43] As Caldwell points out, even though Canada does not have a federal Department of Education, it is a high-performing, high equity country on international assessments.

Table 3: Federal Education programs to be terminated or transferred and associated savings

Budget measure	Proposed action	Saving 2014–15 to 2016–17
Program 2.1 & 2.2 Recurrent funding to schools (ongoing)	Transfer to Treasury	N/A
Program 2.3 School Support (ongoing)	Terminate all programs except Indigenous Education, which could be moved to another department or dedicated unit	$304 million
Program 2.4 Trade Training (terminating)	Transfer management of contracts to schools or states	N/A
Program 2.5 Digital Education (terminating)	Finishes in 2013–14	N/A
Program 2.6 NP—Teacher Quality (terminating)	Finishes 2014–15	N/A
Program 2.7 Support for Students with Disabilities (ongoing)	Phased into Better Schools equity funding	N/A
Program 2.8 Youth Support (ongoing)	Terminate all programs except research Transfer research to another agency (e.g. MCEECDYA)	$75 million
Program 2.9 Student Assistance (ongoing)	Transfer all functions to another department (e.g. Department of Human Services)	N/A
Program 2.10, 2.11, 2.12, 2.13 National Partnerships	Finishes 2012–13	N/A

Source: DEEWR (Department of Employment, Education and Workplace Relations), *Portfolio Budget Statements 2013–14* (Canberra: DEEWR).

Savings (in 2012–13)

On current budget estimates, abolishing the federal Department of Education would save on average $130 million each year. This underestimates future savings, however, given the historical precedent of an expanding role of the Commonwealth in government schools. This figure also does not include the reduced cost to state governments of complying with federal accountability requirements, which would lead to savings at the state level.

Budget Fix #5

Stop rorting by providers and consumers in health

Jeremy Sammut
Research Fellow, Social Foundations Program

Key recommendations

- scrap the General Practice Management Plans (GPMP) Medicare items
- scrap Team Care Arrangements (TCA) Medicare items

Changing dynamics

Health providers have boosted their incomes at taxpayers' expense, and consumers have shifted the cost of allied health on to government. Does this high cost mean these items are achieving their purpose of meeting unmet need and filling chronic care gaps?

Not according to Dr Tony Webber, the former head of the Professional Service Review, the watchdog body responsible for policing the use and abuse of Medicare. In a scathing article published in the *Medical Journal of Australia* in January 2012, Webber argued that the GPMP rebates:

> … created opportunities for a bonanza for some practices. Several practitioners … admitted that their corporate owners had a business plan based on a defined number of these items claimed every week, irrespective of clinical need. Medicare Australia is also aware that a significant proportion of these plans are not carried out by a patient's usual doctor's practice. Anecdotally, claiming for clinically unnecessary GPMPs is significant throughout Australia.[44]

The cost of 'chronic' care

The cost of 'chronic' care to the federal budget has exploded. In June 2005, the Howard government established new Medicare items for chronic disease management and allied health services. The GPMP and TCA items allowed GPs to be paid Medicare rebates for developing 'care plans' and referring patients with chronic conditions to at least two Medicare-funded allied health care services such as physiotherapists, dieticians and diabetes educators.

The well-intentioned objective was to fill a recognised service gap in the health system. Since 1984, Medicare had provided all Australians with heavily subsidised, open-ended, and on-demand access to GP services; however, Medicare had long failed to provide sufferers of chronic conditions with affordable courses of treatment, including clinically necessary care from a wider range of non-medical providers. With these new items, patients with complex care needs became eligible for a maximum of five allied health services per year under the supervision of their doctor.

Webber also argued that the introduction of TCA rebates:

> … created a whole industry of allied health practitioners and dentists who, through a TCA, draw on the public purse. Under a TCA, there is incentive for doctors to be pressured to provide the paperwork for 'free' podiatry, physiotherapy, psychology, and dental care, facilitated by computer systems that can generate the necessary paperwork in minutes. The policy … has created perverse incentives for all parties involved. This is bleeding several hundred million dollars per year as the policy intention is buried by inappropriate claims.[45]

Although GPMP and TCAs are used appropriately to provide necessary care to some chronic patients, these benefits come at an unacceptably high cost given the ensuing rorting. Webber proposes abolishing GPMP rebates and allowing doctors to refer patients for TCAs on clinical grounds without payment.

Implementing this recommendation would save half a billion dollars but fail to guarantee the integrity of the TCA item. The same incentives would exist for non-chronic patients to demand TCA referrals, often at the prompting of providers, and to shift the cost of allied health care to taxpayers. Unless some means can be devised to properly target government assistance to those who genuinely need it, the better policy is to scrap GPMP and TCA items.

Table 4: GPMP and TCA services and rebates

GPMP and TCA items	Services (million)	Rebates (nominal $million)	Rebates (constant $million)	Real growth (%)
2005–06	1.66	141.54	169.39	N/A
2006–07	2.58	200.87	225.43	33%
2007–08	3.38	266.79	299.42	33%
2008–09	4.53	358.50	396.70	32.5%
2009–10	5.50	433.23	464.88	17%
2010–11	6.59	528.02	547.18	17.5%
2011–12	7.89	638.53	653.79	19.5%
2012–13	8.95	722.48	722.48	10.5%

Source: Medicare Statistics.

Savings (in 2012–13)

The GPMP and TCA rebates were estimated to cost $247 million over the four-year forward estimates.[46] At $1 billion, the full four-year cost was four times the original estimate (see Table 4).

Between 2005–06 and 2012–13, the average annual real (adjusted for inflation) expenditure growth rate was 23%, and the total real cost increased by 327%. Expenditure growth has slowed in recent years, especially in 2012–13. This is probably due to the closure on 1 December 2012 of the Medicare Chronic Disease Dental Scheme, which required patients to get a GPMP to qualify for Medicare-funded dental services.[47] However, annual average growth has still been 16% in the last four years, and in 2012–13, the total expenditure on GPMP and TCA items was more than $720 million. Abolishing GPMP and TCAs would save the federal government at least $720 million a year.

Budget Fix #6

End duplication in agriculture

Alexander Philipatos
Policy Analyst, Economics Program

Key recommendations

- transfer the Australian Fisheries Management Authority (AFMA) and the Australian Pesticides and Veterinary Medicines Authority (APVMA) to the industry portfolio
- abolish the remainder of agriculture portfolio

Duplicating state and territory equivalents

The agriculture portfolio comprises:

- the Department of Agriculture
- two regulatory agencies—AFMA and APVMA
- one marketing body—Wine Australia
- six research and development agencies—cotton, fisheries, grains, grape and wine, rural industries, and sugar
- the office of the Minister for Agriculture.

The agriculture portfolio exists to 'develop and implement policies and programs that ensure Australia's agricultural, fisheries, food, and forestry industries remain competitive, profitable and sustainable.'[48] In practice, this means 'assistance to primary producers, forestry, fishing, land and water resources management, quarantine services and contributions to research and development,' with the lion's share going to R&D.[49]

Each state, and the Northern Territory, has its own department and portfolio tasked with industry assistance and grants for R&D. For example, Victoria has a Department of Environment and Primary Industries, while Queensland has a Department of Agriculture, Fisheries and Forestry. South Australia's Department of Primary Industries and Regions states it is 'committed to the sustainable use of the state's agriculture, wine, seafood, forestry, and food industries along with the provision of associated research, regulation, policy development and biosecurity imperatives.'[50]

The SA Department of Primary Industries and Regions also has its own scientific research institute—the South Australian Research and Development Institute (SARDI)—tasked with providing 'robust scientific solutions for primary industries.' In effect, SARDI operates as South Australia's own industry-specific Commonwealth Scientific and Industrial Research Organisation (CSIRO).

Why subsidise research?

The argument for government to subsidise research is predicated on market failure—left alone, the market tends to underinvest in R&D, leading to a slower rate of innovation—supposedly because of inadequate commercial incentives to research new technologies and methods.

This premise is highly debatable, because if businesses can reasonably foresee commercial benefits in a research area, such as more drought-resistant crops, there is a clear financial incentive to invest. The merits of industry assistance for R&D is also dealt with in Budget Fix #3.

The federal government wastes more than $1 billion doling out subsidies to perform functions already done by the states and territories, with two notable exceptions within the agriculture portfolio:

- Australian Fisheries Management Authority (AFMA)
- Australian Pesticides and Veterinary Medicines Authority (APVMA)

Australian Fisheries Management Authority

The states or the Commonwealth manage the fishing waters depending on which government has jurisdiction over the waters. The AFMA is responsible for managing fisheries under Commonwealth jurisdiction, combating illegal fishing activities in Australian waters, and managing 'commercial fisheries from three nautical miles out to the extent of the Australian Fishing Zone.'[51]

It is appropriate that the Commonwealth govern and regulate the use of the waters under its control, as do the states. Hence, the AFMA ought to be retained as it performs a distinct function that cannot (or should not) be performed by the states.

Australian Pesticides and Veterinary Medicines Authority

The APVMA is the statutory authority responsible for registering pesticides and veterinary medicines, and regulating them up to and including retail sale.[52] Before 1993, these functions were performed by individual states and territories. The federal government, with the cooperation of the states and territories, took over this responsibility to create a simplified, uniform system. As states and territories no longer fulfil this function, this is a necessary agency of the federal government.

These two agencies can be transferred to the Department of Industry, and their regular appropriations maintained. The Department of Agriculture, the six agencies devoted to R&D, the marketing body, and the office of the Minister for Agriculture can then be eliminated, including the taxes levied on industry to pay for the subsidies.

Savings (in 2012–13)

The agriculture portfolio will consume $2.2 billion in 2013–14, according to the portfolio budget statement.[53] Roughly $406.3 million is raised by levies imposed on industry as well as licence and registration fees, but the rest (about $1.8 billion) comes from budget appropriations. The two regulatory agencies together spend $28.3 million and raise $4.3 million from licence and registration fees.

Abolishing the Department of Agriculture, the six R&D agencies, and Wine Australia (the marketing body) would also entail abolishing various taxes imposed on businesses that fund part of the portfolio's expenditure.

Abolishing the portfolio and shifting the two regulatory agencies to the Department of Industry would save the federal government $1.7 billion in spending, and cost $403.9 million in tax receipts foregone. All together, the federal budget would be reduced by $1.3 billion per year.

Budget Fix #7

Bring back Medicare co-payments

Jeremy Sammut
Research Fellow, Social Foundations Program

Key recommendation

- introduce a co-payment of $5 for Medicare funded services

Open-ended and high cost

Since Medicare's inception in 1984, the federal government has provided all Australians with open-ended, on-demand access to medical services through the Medical Benefits Scheme (MBS). At the swipe of their Medicare card, consumers receive 'free' or highly subsidised non-hospital care from GPs and other specialists, including pathology, diagnostic and optometry services. Currently, more than three-quarters of all services for which MBS benefits are paid are 'bulk billed' and paid for in full by the government, with no patient co-payment or out-of-pocket charges levied.[54]

The lack of clear and consistent price signals accounts for the high and ever-escalating cost of the MBS.[55] Health insurance schemes such as Medicare that permit health care to be consumed at no direct cost to patients encourage overuse. Exposing patients to the real cost of health care has been shown (by the famous RAND experiments) to deter unnecessary use of services with no adverse affects on health outcomes.[56] As the Grattan Institute has shown, the rising cost of health to the federal budget in the last decade has been driven by an increase in the volume of services used due to people 'seeing doctors more often, having more tests.'[57]

The need for people to make relatively small and affordable contributions towards the cost of their health care to curb strong growth in spending on the MBS was recognised within the first decade of Medicare's existence. In November 1991, the Hawke government undertook the first major health reform since it founded Medicare, when a $2.50 co-payment for GP services was established. Pensioners and other low-income concession-card holders were exempt from this co-payment. However, these protections did not satisfy the left wing of the Labor Party. The co-payment regime operated for only three months, and was scrapped by the new Labor Prime Minister, Paul Keating, in return for the support of members of the Left in the successful leadership tussle that ousted Bob Hawke as prime minister in December 1991.

Hardly radical

Good, bipartisan health policy (the Coalition supported the co-payment arrangements) was sacrificed for the sake of political expediency.

As former ANU economist and now federal Labor MP, Andrew Leigh, argued in 2003, the Hawke government got it right when it created the 'ideal model' and 'perfect co-payment system.' The 'small co-payment,' he argued, was 'not enough to put a dent in your weekly budget, but enough to make you think twice before you call the doc.' Moreover, the idea was 'hardly radical,' with a roll call of European social democratic countries with publicly funded health systems (from Greece to Sweden) charging co-payments.

Leigh urged the Howard government to 'deter frivolous GP visits' by converting the 1991 scheme into today's money, and implored the Coalition to go further than Labor had by ensuring that co-payments were paid by all, with no exemptions for special groups, including pensioners.[58]

The Abbott government should heed Leigh's advice. Adjusted for inflation, the 1991 compulsory co-payment in today's money would be $4.26. There clearly is scope for increasing the out-of-pocket cost for accessing MBS services, given that the value of the updated co-payment is less than the cost of a Hamburger. Doubling the co-payment to a round figure of $5 is not unreasonable (especially considering that the original Hawke co-payment was planned to be $3.50, which is $6 in today's money, and only was lowered to $2.50 to satisfy caucus critics).

Expand cost-sharing

Nor is it unreasonable to expand the range of services to which the co-payment applies. Over the past 20 years, technological innovations, increased availability, defensive medical practice, and rising consumer expectations have led to substantial increases in diagnostic and other investigatory services. Since 1994, per capita use of pathology services has increased by 100% and of diagnostic imaging by 68%, compared to a 5% increase in GP services and an 18% increase in specialist consultations.[59] Cost-conscious use of pathology and diagnostic tests, including optometry, should be encouraged by implementing cost-sharing arrangements in these segments of the MBS, particularly since all three services have high rates of bulk billing (87%, 75% and 99% respectively).[60]

There is no need for pensioners (who have enjoyed substantial real growth in the value of their pension entitlements in recent times) and other welfare recipients to receive self-defeating benefit top-ups to compensate for the additional co-payment costs. The point of co-payments is to treat medical care as an ordinary living expense for which self-provision should be made within household budgets. The Medicare Safety Net is already in place to protect all individuals and families that incur excessive out-of-pocket charges for out-of-hospital services in any calendar year with an extended, means-tested safety net available for concession-card holders and Family Tax Benefit A recipients.[61]

Table 5: Select MBS services, benefits and co-payment savings, 2012–13

Type of service	# Services (million)	Benefit ($million)	Saving with $5 co-payment ($million)
GP	115.51	4,908.06	577.55
Specialists	26.60	1,982.61	133.03
Pathology tests	120.62	2,377.70	603.12
Diagnostic tests	21.39	2,702.75	106.96
Optometry	7.51	367.02	37.56
Total	**291.64**	**12,338.16**	**1,458.24**

Source: Medicare Statistics.

Savings (in 2012–13)

Charging a $5 co-payment for GP and other specialist care, pathology, diagnostic and optometry tests, combined with a corresponding $5 reduction in MBS rebates for these services, would save the federal government at least $1.4 billion per annum based on the benefits paid by Medicare in 2012–13 (see Table 5). The co-payment and rebate reduction would apply to more than four-fifths of the 343 million MBS-funded services received in 2012–13, which accounted for approximately two-thirds of the $18 billion total cost of the MBS. The estimated expenditure savings are conservative, and greater reductions can be expected based on the impact that price signals are designed to have on overuse. The windfall savings generated by more appropriate usage could be substantial as the entire cost of rebated services will no longer be charged to the federal budget.

Budget Fix #8

Curb indexation of income support payments

Robert Carling
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Key recommendations

- curb the growth of income support payments stemming from indexation
- Option A: retain indexation but index pensions to the CPI rather than (faster growing) average weekly earnings
- Option B: freeze current rates of payment for a period and then resume indexation without catch-up for the freeze

Income support payments the largest element of spending

The largest single type of payment from the federal budget is for income support, totalling more than $100 billion in 2013–14. This includes pensions (age, disability and veterans), allowances for the unemployed and students, family benefits, and support for carers of the disabled and some parents.

Income support looms large in government spending, comprising more than 25% of the federal budget and 20% of the entire general government sector, including state and local government. The future growth of these payments will be a major factor in the growth of overall government spending.

Inconsistent indexation arrangements increase government spending

The growth of income support payments will depend on growth in eligible populations, changes in eligibility criteria, and increases in rates of pensions and allowances. This fix focuses on curbing increases in rates of pensions and allowances. Rates of payment are automatically indexed. In addition, there have been discretionary above-indexation increases in pensions and allowances, such as the large increase in pensions in 2009, which are costing more than $3 billion a year. Government deliberately overcompensated pensioners and other beneficiaries for the impact of the GST (in 2000) and the carbon tax (in 2012) on the cost of living. There have therefore been substantial real increases, particularly in pensions, in recent years.

The indexation arrangements are complex, but in general, pensions are indexed to male average weekly earnings, whereas other payments are indexed to the consumer price index (CPI). Normally, average weekly earnings grow faster than the CPI—the former by about 4% a year and the latter by about 2.5%. Indexing pensions to wages almost guarantees automatic annual real increases, whether the budget can afford them or not.

The practice has not always been to index income support payments. Indexation is a by-product of the high inflation era of the 1970s and 1980s. Before indexation, adjustments were discretionary and depended on what the budget could afford each year. Indexation has reduced the government's control of year-to-year expenditure growth. Making all increases discretionary would restore some of that control and allow the level of expenditure on income support to be better attuned to the overall constraints on budgetary expenditures.

Other countries have modified indexation policies to exercise better control over growth of government spending. For example, in recent years New Zealand has stopped indexing some cash benefits and tightened eligibility rules. These measures have resulted in an absolute reduction in nominal outlays on the benefits programs in question.

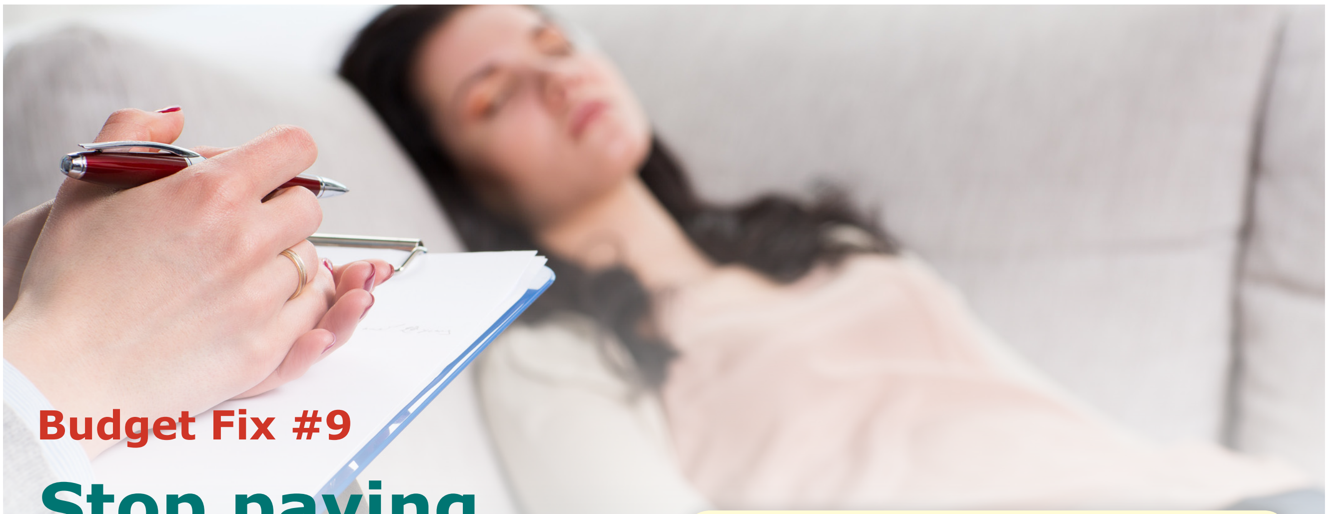
Savings (in 2012–13)

Option A, which would change indexation of pensions from average weekly earnings to the CPI, is a modest measure that would save approximately $1 billion in the first year and then an additional $1 billion a year for as long as the policy is continued (for example, $5 billion a year after five years).

Option B goes further by suspending all indexation to save approximately $3.5 billion permanently for a one-year freeze.

A combination of options A and B would save $3.5 billion in the first year, $4.5 billion in the second year, and then an additional $1 billion a year (to $7.5 billion a year after the fifth year).

The savings from scrapping indexation permanently are impossible to quantify because it is not possible to predict the size of the discretionary increases that would replace indexation.



Budget Fix #9

Stop paying for ineffective mental health rebates

Jeremy Sammut
Research Fellow, Social Foundations Program

Key recommendation

- stop providing rebates under the Better Access to Mental Health Services scheme

A new form of middle-class welfare

Defenders of Better Access to Mental Health Services argue that the high cost reflects increased use of mental health services, and that the outlay is justified because treatment rates for mental illness have increased.[62] Critics argue that the benefits are overstated. Rather than help those who need the greatest support to access treatment, the main effect has been to exacerbate traditional social and regional inequalities in mental health service provision.[63]

The 2011 evaluation commissioned by the federal government showed that people living in urban and well-off suburbs disproportionately use Better Access services, with far lower rates of uptake in remote and socially disadvantaged areas.[64] As pointed out by the leading critics of Better Access, mental health experts Sebastian Rosenberg and Ian Hickie, Queenslanders receive clinical psychological services at half the rate of Tasmanians, while the ACT accounts for as many clinical psychologist rebates as the whole of NSW.[65]

The skewed patterns of use by the well-off and well-provided for led Neil Cole, a former member of the National Advisory Council on Mental Health, to conclude that Better Access has chiefly operated as 'middle class welfare masquerading as a mental health scheme.'[66] It has involved considerable transfer of costs from individuals who could afford to pay for their own treatment to taxpayers. The evaluation found that approximately half of all users were not accessing mental health services for the first time, meaning that a substantial number of users had been accessing and would have continued to access non-Medicare funded mental health care without Better Access.[67] This also implies that providers of psychological services have greatly increased their incomes by claiming Better Access rebates while charging a co-payment, with bulk-billing rates for psychological therapy services and focused psychological strategies around half that of Medicare-funded GP services.[68]

Expensive and inequitable

On 1 November 2006, the Howard government established the Better Access to Mental Health Services initiative.

New Medicare items were created to increase access to primary care mental health services for patients suffering from 'common' and often untreated mental disorders such as depression and anxiety that require short-term episodes of care.

Similar to the General Practice Management Plans (GPMP) and Team Care Arrangements (TCA) items, GPs were paid a rebate to plan and coordinate the care of patients, who could for the first time be referred to Medicare-funded clinical psychologists and other allied mental health workers for specialised psychological services.

Effectiveness of the scheme

This is not to say Better Access has no benefits. It has increased the access to mental health services across all sections of the community, including in socially and geographically disadvantaged areas. But this desirable outcome could have been achieved (and still can be) at a far lower cost by providing targeted and more cost-effective support to assist the truly disadvantaged and build capacity in underserviced country and low socioeconomic status regions.[69]

Increasing the access to mental health care in relatively advantaged areas is also a questionable use of scarce public resources, given competing priorities in mental health. Better Access is not and was never intended to be used to treat patients with severe and persistent mental illness. These almost universally low-income patients rely on state government-run public mental health services that struggle to provide adequate care due to inadequate funding. A further reason for scrapping Better Access is there is no evidence that early intervention treatment services delivered through Medicare has reduced rates of acute and chronic mental illness or eased the load on the public mental health system.[70]

Table 6: Better access to mental health services and rebates

GP, CP, PTS and FPS items*	Services ($million)	Rebates (nominal $million)	Rebates (constant $million)	Real growth (%)
2007–08	3.24	325.06	364.80	N/A
2008–09	4.28	434.43	466.17	28%
2009–10	5.02	515.26	552.91	18.5%
2010–11	5.75	600.15	621.93	12.5%
2011–12	5.90	589.23	603.31	-3%
2012–13	6.42	630.93	630.93	4.5%

Source: Medicare Statistics.

* General Practice (GP), Consultant Psychiatrist (CP), Psychological Therapy Services (PTS), and Focused Psychological Strategies (FPS).

Savings (in 2012–13)

The Department of Health and Ageing (DHA) estimated that Better Access items would cost $538 million over four years.[71] The cost blew out from the start and far exceeded initial estimates, with the actual four-year cost totalling more than $2 billion (see Table 6).

Between 2007–08 and 2012–13, the average annual real (adjusted for inflation) expenditure growth rate was 12%; total expenditure increased by 73% in real terms over the period. Predicted continued cost explosions to at least $4 billion over five years led the Gillard government to introduce reforms in the 2011 Budget that lowered payments to GPs for drawing up care plans and reduced the number of rebates available for psychological consultations from a maximum of 12 to 10 in a calendar year.[72] These relatively minor changes have been effective in lowering growth in costs in subsequent years. However, the total cost of Better Access rebates in 2012–13 was well over half a billion dollars ($630 million), but the fundamental problems with this expensive initiative remain unaddressed. Scrapping these rebates would therefore save $630 million a year.

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TARGET30

REDUCING THE BURDEN FOR FUTURE GENERATIONS

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