

## **Address to the Hayek-Tage-Conference 2002**

***Delivered on 14 June 2002 in Salzburg, Austria***

This morning I intend to discuss social policy issues, an area of reform New Zealand has hardly begun. Before doing so, I will outline some economic changes we made.

### **Policies implemented in New Zealand to achieve structural change after 1984**

For those of you who are coming fresh to the changes in New Zealand, I suggest you should not attempt to absorb the details of every change. Instead I suggest you focus on the comprehensiveness of the change and the consistency that underlines the type of change.

#### **Policy Reforms**

##### **Removal of Border Protection**

Border protection had been intended to permit the growth of viable domestic industry. Instead, the main effect was to reduce the range of goods available and to push up prices. The consequence of this was to reduce New Zealand's competitiveness and so reduce our participation in world trade.

##### ***Actions***

- Free trade agreement between New Zealand and Australia
- Removal of import licensing mid-1980s
- Reduction in tariffs was due to be totally eliminated by 2003 but a Labour Government has put them on hold

##### **Removal of Industry Assistance**

In order to compensate for increased domestic costs as a result of border protection, we had developed a growing range of subsidies and guarantees to assist exporters. These subsidies had even extended to the farming area, income support and import subsidies.

##### ***Actions***

- Removed Regulations on Prices and Incomes
- Abolished farm subsidies (\$1-\$3)
- Removed tax concessions to exporters
- Removed all export guarantees
- Removed low interest loans

Now both farming and manufacturing are growing in New Zealand based entirely on world prices.

##### **Tax Reform**

- Abolished sales taxes so that all goods would be taxed on the same basis in future.

- Introduced a goods and services tax (our VAT) at a single rate on all products (except financial services).
- Reduced top marginal tax rate (66c - 33c).
- Company and personal tax rates aligned.
- Old depreciation regime that offered favouritism for some industries now gone.

### **Infrastructural Reform**

There have been a number of important changes in the area of transport and communications.

- Old protection for Railways removed (40-mile limit on all other forms removed).
- Ports deregulated and corporatised.
- Air New Zealand's domestic monopolies removed with competition from Australian airlines.
- Air New Zealand privatised.
- Competitive tendering for bus routes
- Open entry for taxis (no licence)
- Telecom New Zealand sold - prices down - connections 1 day not 1 month
- Ministry of Works - corporatised, then privatised.
- Television and radio spectrum - auctioned to highest bidder.
- Government Printer sold (departments now buy from whoever they wish).

### **Competition Policy**

In many countries of the world there are regulators who closely scrutinise the activities of various monopoly or dominant providers of services.

They are supposed to understand the operations of these providers and to prevent them manipulating the market. However, in New Zealand we have no such regulators. Instead, we rely on the threat of possible competition protected by standard market entry provisions to control the monopolist.

The Government has not privatised any industry without first ensuring that there will be contestability (or hopefully actual competition) for that market. It is this contestability which the government relies on as the main means of preventing excess price rises.

All industry and commercial activity is regulated under the Commerce Act. This gives the Commerce Commission the power to enquire into monopolies and to prevent mergers that could establish a dominant market position.

So far this reliance on an overall market test appears to be working satisfactorily. The principle evidence for this is the decline in real prices across the range of previously government-controlled industries and the improvement of competitiveness of New Zealand providers in virtually all sectors of the economy.

### **Financial Markets**

- Control on entry to financial markets was removed, now -
- Any Bank that can demonstrate soundness can get a licence in New Zealand
- Removed formal controls on Banks and financial intermediaries (e.g. specific ratio sector investments).
- A devaluation followed by removal of Exchange Controls.

- Inflation goal was 0-2%, now 0-3% - a public contract between Minister of Finance and the Governor of the Reserve Bank spells this out.
- Operational independence to Reserve Bank to achieve targets.

### **Labour Market**

- Flatter tax scale.
- Reduced Welfare Benefits [targeted to those in need].
- Tighter Social Welfare eligibility rules.
- Education and training for unemployed.
- Industrial Relations Law Reform.

### **The Reform of Government Management**

For many people government management is a fairly esoteric subject which is not considered to be at the heart of economic management. In New Zealand we take the opposite view. We consider that it is impossible to construct an efficient economic process if the largest player in the economy is inefficient. Government expenditure in New Zealand accounts for over 30% of GDP. It is impossible for exporters to maintain international competitiveness if the government services that they need are provided on an inefficient basis.

It is fundamental that the Government must continue to review all spending to ensure that unnecessary programmes are removed. That is a well-understood policy approach world-wide.

In New Zealand we have taken a stronger stance and have said it is also critically important that the processes of management and accountability are as clear and as straightforward as possible so that the Government can be as efficient as possible.

### **The Main Reforms**

The reforms to the New Zealand Government management can be divided into three main areas.

#### **Corporatisation and Privatisation**

The first is the process of corporatisation and the later process of privatisation. Many government-trading activities have been established as state owned trading companies with commercial objectives, paying a dividend to the Crown. Several of these plus some other government companies, have been privatised notably including Telecom, Air New Zealand and the Bank of New Zealand.

#### **Government Financial Management**

The second major area of change is the restructuring of the government accounting system. We have shifted from a March year, cash based, input focused system to a June year, accruals based and output oriented system. This represents a dramatic change in the accounting and accountability of all aspects of the government. Its symbolic representation in our government balance sheet is well known as a major change, but that is only an outward manifestation of a wider change.

#### **Public Sector Employment**

The third area of government management change has been in our institutional structures and employment systems. We used to have a system in which lifetime civil servants worked as administrators carrying out government policies. We have moved to a structure in which senior staff work on fixed term contracts with performance related pay to deliver outputs that Ministers have contracted for.

Regrettably, these economic changes did not extend to the social policy area. This morning, I will explore the nature of the changes required.

The Social Welfare System of most developed countries which involves education, health care, employee accident compensation, retirement benefits (health and pensions) other benefits such as sickness and unemployment and other Social Welfare Services is in serious trouble.

### **1. Social Welfare is broke or broken**

- In the 1930s, 15+ workers supplemented each social welfare beneficiary. Today in many countries there are barely 2 workers per social welfare beneficiary. By 2025, on present trends, it will be less than 1½ worker per beneficiary. At that point, the system will clearly be broke.
- The escalation of costs within health, education and employee accident compensation far and away exceeds the rate of inflation.
- Despite these massive increases in expenditure these areas of government activity are delivering less than that required by consumers.

### **2. Taxes are too high**

- As a result of the growth in social welfare expenditures, the government sector now represents around 40% of GDP in most developed countries.
- No evidence exists to support the view that this extra spending has returned more to the nation than it would have had if it remained in the private sector.
- In fact because many of these goods and services are underpriced or free of charge, demand reaches the point where there is little or no marginal benefit.

### **3. Social Welfare is a bad deal for workers**

- Almost all workers under 40 will receive far less in retirement benefits than they could earn by investing their personal taxes in private funds or pension plans.
- Relative health and educational standards in most developed countries are not up with what consumers expect.
- The one-size-fits-all approach which forces participants to pay compulsory taxes in exchange for various social welfare benefits, prevents workers from choosing better options.

### **In looking to what changes we might make to welfare, we need to understand how the Social Welfare system differs from other markets.**

- **Consumers are not spending their own money.**  
This leads to higher levels of demand than would otherwise occur.
- **No pressure to reduce costs.**  
In fact, providers often increase their own incomes only when costs go up.
- **Lack of choice for the vast majority of the population.**  
Most people having paid a 1/3 or more of their income in taxes cannot afford alternative options such as private education, sickness cover etc.

- **Innovation often discouraged.**  
In fact, the government education and health care industry are often hostile to change and discourage its development.
- **Little or no idea of price.**  
In normal markets, producers advertise price discounts and quality differences. Not so with government welfare.
- **Little ability to ascertain quality of service.**  
Little information is made available to ordinary people about the quality of Social Welfare Services in various countries.

### **What then should be the goals of an ideal Welfare System?**

- **An ideal system would remove social welfare (as far as possible) from day-to-day political decision making.**  
This is vital. Until we do this, the well-organised special interest groups will continue to do great harm to the rest of us.
- **Transfer power from large institutions (Accident Compensation Corporations) and impersonal bureaucracies (Health, Education and Social Welfare Departments) to individuals.**  
Such institutions will never care about us or know as much about us as we do - we need to remove their decision making power from them as it affects individuals.
- **Restore the buyer/seller relationship to consumers and providers.**  
So that each of us as consumers becomes the principal buyer of welfare services, be they superannuation, health or education, as we do with other goods and services rather than third parties.
- **Subject Social Welfare to the benefits of competition.**  
By creating market based organisations where each of us benefits from good decisions or bear the cost of bad ones (mind, none could be as bad as government inflicts on us all at the moment).
- **Create a marketplace where individuals (as much as possible) spend their own money rather than someone else's.**  
This will involve major tax reductions and for some, tax credits to enable them to buy what they need in the market. When people spend their own money rather than someone else's, they will demand better service and higher standards.

### **How an ideal Social Welfare System would work -**

- Consumers rather than third parties would be the principal buyers of welfare type products with opportunities to compare options, compare prices and make decisions.
- Insurance companies would specialise in the business of insurance.
- Fund managers would specialise in the business of providing for each individual's requirements.
- Employers would help individual employees make informed decisions - not buy superannuation, health care or welfare on their behalf.
- Doctors, teachers, welfare workers would help consumers make informed decisions rather than act as agents for the third party buyers.
- Hospitals, schools and welfare institutions would be competitors in the business of providing welfare services rather than acting as agents for third parties.
- Government, in its role as insurer of last resort, would help pay the costs of low-income people but would no longer buy health care or education on behalf of individuals.
- Government, in its role of policy maker, would facilitate long-term savings and adequate cover for catastrophic events and competition between suppliers.

## **A Policy Programme for change in Social Welfare**

- Create freedom of choice in welfare.
- Tax reductions plus tax credits where necessary will give all the ability to buy the welfare products they need in a competitive marketplace.
- Establish equity in taxation.
- Encourage individual self-insurance for smaller items of expenditure.
- Encourage individuals to take out catastrophic social welfare coverage against:
  - Accidents
  - Sickness
  - Unemployment
  - Health
  - Etc.
- Ensure information relating to prices and costs is freely available.
- This will come with an openly competitive marketplace.
- Encourage savings for retirement (income and health).
- Freedom of choice and tax reductions, which must be saved, to those who wish to look after themselves will ensure this happens.
- Empower those who, by choice or circumstance, elect to stay with government provision.

### ***How?***

Any policy programme for change must deal fairly with the transition from one system to another.

- Individuals will not accept change until they know how they will be affected.
- Need to face costs of change (i.e. people having to pay twice for a period of time). Given the efficiency gains to be made this cost will be less than most people expect.
- Lock in present health and income arrangements of existing retired.
- Lock in partial benefits for those 30 years or over, in respect to retirement pensions and health provision.

### ***Reason***

- Given security, maximum number of people possible will move from state tax based system to new system.

### ***How?***

- Reduce personal taxes by cost of self-provision and allow employers' contributions to go direct to the individual for those who:
  - Provide for their own retirement both health and income or in part for those covered by any transition provisions.
  - Provide for their own welfare needs (health, unemployment sickness, costs relating to marriage breakdowns, accidents etc) during their working life by way of catastrophic insurance cover.
  - Provide self-insurance for smaller items of expenditure.
  - Provide for their children's education (tax credits for low-income families).
- For those who wish to remain with government, current level of taxes would apply, the government undertaking the above tasks for them.

Let's look at how this new system might work, using New Zealand as our example -

## **Education - The Problems**

Why is it that despite spending an extra 20% on education since 1999 and an extra \$2,000 on education in 1999 for children and young people for every New Zealand household compared to 1990 and an extra \$4,000 compared to 1980 we:

- Have so many New Zealanders out of work? It's not just low job creation. Tens of thousands of them lack 21<sup>st</sup> century skills.
- Our school system is so bad that, for decades, 50% of our children couldn't even pass School Certificate - an outrage.
- Instead of improving the teaching, adapting it better to the needs of those children, they cut the standard.
- Now, if you pass one subject, you can say you got School Certificate.
- Are you any better fitted to succeed in the 21<sup>st</sup> century? No. You come out of the system good for nothing but the junk heap.
- Politically correct Training Colleges.
- Results in:
  - Boredom, low self-esteem, hopelessness, alienation, drug abuse, crime, highest youth suicide rate in the world.
  - Bad parenting for a new generation.
  - Vicious circle of lack of income and general disadvantage.
  - Creation of an underclass on subsistence benefits in perpetuity beyond the pale of productive, self-respecting society.
  - People who want desperately to contribute are forced to become a drag on society and ruin their own lives in the process.

## **Education - The Answer**

Mum from Otara (New Zealand's poorest suburb) has four kids doing badly at high school. She sees the Headmaster. Does the Headmaster listen? Does he change anything?

No he works for the State. He's paid by the State. What he has to satisfy is the State System and the forms the state demands he fills in not mum from Otara or her kids. In his eyes, it's her fault, their fault, not his, if her kids aren't performing to the system's satisfaction. Their loss, not his, when they leave school.

But suppose mum from Otara had her \$6,000 to spend on education, for each one of her four kids, if she so decides. That's \$24,000 this year and every year. Her kids are getting nowhere. Half the kids in the school are failing. All those parents with \$6,000 a child want to see some progress.

Can the Head get away with soothing noises? The entire school's annual income is up for grabs. Suddenly, mum counts for something. Down the road, some other high school is looking over his fence. If it can earn a better track record teaching those kids, it gets the money.

Mum doesn't have to be a genius to produce dramatic improvement. All she needs is the money and the power that gives her, then the school will do the work for her. If she's not happy, she can talk to the new school down the road and see what they're prepared to offer to earn an extra \$24,000 a year.

Aha, you say, but where's the money coming from to give every mum in Otara \$6,000 per child a year to put into their own education account? Well you don't need one extra cent to give that money to her. That's what the State is spending right now, per child per

year, on education, in Otara. All you do is change the recipient. You give it to her, not the school and all of a sudden the school has to earn it, on merit performance.

Overnight that mother feels rich. She has money in her child's education fund. She counts for something. She cares and caring can get results. She's an integral part of the dynamics of a society designed to create opportunity for her own children, not a bystander in the system. She can go out there and thump the table at that school, knowing for the first time in her life, she's got a real chance of getting results.

We don't have to spend one extra cent to accomplish that. Costs fall, mum-power efficiently replaces a whole army of education bureaucrats.

The education money currently spent by the state on each child would go into an education account with each child's own name on it, if that's the choice made by their parents. Parents choose the school. Parents pay the school from that account. They hold the power, not the politicians. If parents pay the piper, then they begin to call the education tune. Parents, unlike the Minister, can extract progress from the system.

That's absolute equality for every mum, every child in the country. It doesn't cost the State one extra cent.

## **The Result**

### **Education 2012 in New Zealand**

Politicians have largely been removed from the day-to-day activities of education as they have been in any other industry. Putting in place appropriate regulations and creating the right environment is their only role, having already ensured that all consumers have to means to buy education.

Productivity and the quality of education have risen dramatically. Competition between schools and universities is now the norm. Education is like every other business with new people entering all the time and others exiting. Testing and comparing performance between schools and countries has become the norm.

In terms of reading and writing New Zealand now leads the world having made dramatic progress over the last 10 years. Public schools have improved their performance dramatically as a result of increased competition and now teach 30% of all pupils.

Another 40% of pupils learn at schools substantially owned by the teachers themselves. The remaining 30% of pupils learn at schools owned by publicly listed companies. 80% of school buildings are owned and maintained by property companies who compete in providing what schools require.

The old style Training Colleges have disappeared with any number of other institutions (including universities) providing a level of teacher training unheard of 10 years ago.

Schools seek to differentiate themselves in a number of ways. Recent advertisements read as follows -

- "The average reading age of an 8 year old at Z school was that of the average 11 year old in New Zealand (as tested by XYZ authority)."

- "Y school's music, drama and sports departments were each ranked No. 1 in Auckland by XYZ Authority while at the same time the school maintained its top 10 ranking in terms of overall academic achievement."

A number of new schools have been established throughout New Zealand that concentrate almost solely on children who had been previously regarded as disadvantaged and/or troublesome. The results in most cases have been nothing short of spectacular.

Costs as a result of the huge improvements in productivity have fallen dramatically for the equivalent of what was delivered in the 1990s. The savings have been reinvested into education in a number of new and innovative ways.

Schools, particularly pre-schools and primary schools have developed new streams of income unheard of in the 1990s. The length of the school year and the hours per day that schools remain open are no longer regulated and vary enormously as schools respond to the needs of different parents.

The size of schools varies considerably with the major change being the growth of one-teacher schools at primary and pre-school level, often co-operating with other one-teacher schools to provide certain amenities and specialist teaching.

At the secondary school level branding has become all-important with 20 chains of schools in fierce competition with one another dominating the market. Niche schools still thrive but now teach less than 10% of all secondary school pupils. The majority now attends one of 20 chains now operating. The teacher partners own the majority of the 20 chains (15) themselves along the lines of public accountants and lawyers practices. If you desire an Auckland Grammar, an Avondale College or a Christ's College type education it is now available throughout the country.

The status of teachers as a result of the changes is seen to be the equal of accountants, lawyers and doctors. Young people having qualified at university compete vigorously to get into the very best recognised institutions undertaking teacher training. The income of teachers now varies enormously as it does in other professions with the CEO of the largest chain on secondary schools earning more than \$1 million.

Education is paid for directly by parents or students at university level. Major tax reductions resulting in many cases in tax credits has made this possible

Unions who dominated education so much in the 90s have lost their power as a result of failing to adapt to the new environment and as both parents and teachers realised that the standard of education had gone ahead by leaps and bounds.

The educational bureaucracy in Wellington is now less than 10% of its size in the 1990s. The substantial funds freed up now go directly to schools and universities.

A new set of incentives exists within education and only those schools and universities who have responded positively have survived. The new educational environment demands –

- Quality first and foremost
- Competitive pricing

- A recognition of the different needs of each and every child. Tailored programmes for each child are now the norm and not the exception.

Performance contracts between schools and parents are becoming more and more popular. The role of many schools has expanded into what was previously the domain in the 1990s of Social Welfare and health suppliers.

The fact that the self-interest of parents, teachers and schools are now aligned is largely responsible for the huge improvements in standards.

Despite the profit motive in education today, the results have been the same as they were with Railways, Post Office, Ports and Telecommunications. Prices are down; quality of service is up and services levels expanded and privatised. What does the child need is now the normal question asked and answered by competing providers.

### **Health - The Problems**

- Every report on public health in the last 20 years showed it was in disastrous condition.
- Today, notwithstanding reform, that condition is worse than ever.
- Many see reform as adding to the health care disaster.
- Organisation chaotic. Resource utilisation remains appalling.
- Yet public needs and expectations go on rising.
- Many providers claim, even with good organisation, they don't have enough money to provide the care the public now wants.
- Despite subsidies, thousands say they can't afford to see their GP.
- Despite 100% increase in real expenditure over 30 years:
- People with cancer are dying while they wait for treatment.
- Nobody can say they're happy with public health care delivery.

### **General Discontent on Health**

#### **Funding since 1980.**

- More people are dissatisfied with public health policy than with any other policy. Why?
- Government health spending after inflation adjustment rose in real terms by 13% in 1980-91 and by 17% in the six years from 1985-91.
- Government health spending before any inflation adjustment rose by around 30% over the last 5 years.
- Private health spending has risen but close to 80% of funding still comes from government as it has done now for more than 40 years.

### **What went wrong?**

What then are the sources of the almost universal discontent with the system, both before and after recent reform?

For nearly 60 years, New Zealanders have been encouraged to think all health care can or should be delivered free of charge to patients. Most people grew up believing free care is their birthright. They think their tax payments bought them lifetime health care at no extra charge.

But if health care is free to individuals, demand for it rises regardless of cost, to any level of need which patients choose to think they want satisfied.

Cost is of no concern to patient or doctor - it falls on taxpayers and the nation's taxpayers are not represented in the consulting room. As technology and needs both become more sophisticated, costs rise; the level of implied patient demands becomes virtually unbounded.

No government can afford universal free care. 'Free' systems are managed by failing to provide money to satisfy all patients. Limited funding forces patients onto waiting lists. Thousands stay on those lists for years, regardless of pain. Some people die on them.

If you are in acute danger of death, you do get care. Until then, the system always reserves the right to classify your pain as non-urgent. Patients on waiting lists have paid their taxes like everyone else but they have no rights and short of private treatment, no redress.

Though some evade rationing by paying twice and buying private care, low-income people have no escape from the system's limits. If waiting destroys your income, savings and your family - even if you die waiting - that's your problem. The system takes no responsibility.

### **Suppressing the Symptoms**

#### **Quackery, not cure.**

By the late 70s, high tax, deficits and public debt were wreaking havoc with growth and employment in New Zealand. The 1984 foreign exchange crisis forced both major parties to think again about ever-rising expenditure in health or any other vote area.

Past governments had put an open chequebook on every doctor's desk but had no way to monitor performance or control their spending.

Hospital Boards had been bulk funded to do what they thought best, without accountability. Subsidy variations ranging from 0% to 100% distorted treatment patterns, creating over-use of some services and under-use of others. No one took overall responsibility for patients. As they passed from one provider to the next, the same tests were duplicated over and over.

Costs varied from hospital to hospital by huge and irrational margins - geriatric care averages, for example, ranged from \$64 to \$657 a day! GPs made part-charges, but hospitals did not. So, many patients sought primary care from hospitals, further boosting costs to the State.

This inefficient demand-drive cost-plus system was viable only in regimes of ever-rising tax, exorbitant fiscal deficits and mounting debt. Gaps in service accumulated. GPs found cities more lucrative than caring for rural people.

Provincial people, with less community care and out-moded hospitals, spent up to 50% more costly days in hospital per 1000 people.

At the end of the 1980s the myth of free care and the reality of inefficiency and rising cost met finally in the smash of a head-on collision. Reformed systems were fumbled into place to try to improve accountability. The public felt threatened. Health professionals went berserk.

Though some providers began to face competition, the Government set up four new monopolies to buy care on behalf of the public. Now reversed. Those regional authorities

had no more hope than the old system of satisfying the demand for free care. Their real job was tougher rationing. Some efficiency gains were certainly made, but tougher rationing inevitably meant less choice of patients and more regimentation.

Meantime, health professionals organised as never before to capitalise, for their own benefit, on fear and the uncertainty in new managers. Nurses hold unprecedented three-day strikes and threaten five-day strikes to extract personal advantage from the fear of the public.

Hospitals are asked to be more businesslike but Ministers still peer over their shoulder to prevent sound long-term decisions. Hospitals prevented by politicians and staff from maximising efficiency, resort to cuts in their care services, in an effort to contain rising cost.

Unbounded demand from the public and health professionals for free care still clashes head-on with the realistic limits of national ability to pay.

Government Ministers, baffled by an irresolvable conflict of goals, abandoned the fight for a sustainable system. Opportunist politicians daily promote the view that deficits and inflation are good for jobs and health care at zero cost is a universal right.

Tragically those are exactly the policies that put the disadvantaged and inarticulate at the bottom of the health heap and keep them there. Are we stuck with the present contrived health care system, or is there a genuinely sustainable alternative - and if so, what is that alternative?

The real challenge is to re-think the system, to find some practicable way of harmonising the discordant goals of the public and the State.

## **The Answer**

### **Power to the people**

The average New Zealand family already funds all of its own lifetime health care, but has little say in spending the money.

Consumers have no feeling that they are spending their money. Neither they, nor doctors are under pressure to spend wisely. The system sets standardised rules for all. Innovation and technological change are stifled. Quality suffers; costs are boosted.

Providers depend more on the system than their own patients for income. Their loyalty to patient interests is, at best, a divided one. Responsibility for decisions on what to buy, who's wait-listed, and who gets care at what price is all delegated to government agencies.

Until consumers take back that power and start buying their own care, they will continue to be kicked from pillar to post by the system.

### **Choice plus financial security**

But ill health can come unpredictably at any moment. It creates ruinous bills. People have two major needs - health and financial security. How can families on average or low-incomes take personal responsibility, without risking death or bankruptcy in a health emergency?

Step one is simple. The state gives back to individuals who want it, all of the money they presently spend on their family's health care. Note, however, that it doesn't give back the tax you pay to fund care for low-income people unable to afford their own tax of health care.

Tax paid to help fund care for other people is instead given directly to the disadvantaged, so that they can afford to buy their own care. They too, therefore become purchasers with genuine commercial power to put pressure on providers, for the satisfaction of their needs.

As a result, every individual and family has a fair share of the money presently at the state's disposal to cover their own future health risk.

Step two: The state then makes it compulsory for every individual/family to insure against annual health costs of a catastrophic nature. As with cars, individuals would pay their own minor repairs up to approximately 5% of income. Above that, all costs would fall on their insurance company.

That approximate limit means a family on \$30,000 in the worst year of its life would never face bills of more than \$1500, apart from their premium. On the other hand, millionaires would, in a health crisis, have to reach into their pockets for anything up to \$50,000 for that year.

To keep companies honest, policies would be renewed annually. Individual and family would be totally free to switch to a different company.

### **Advantages of change**

In the upshot, clearly, you still make compulsory payments. Why is the system better than just paying tax to the state, as people do now?

- The state takes your money and your power of choice. It abrogates all the important decisions to itself and leaves you impotent.
- The new system leaves you free to choose your own insurer, based on published data on competitive performance on behalf of patients.
- Your power to dump any insurer disciplines them to serve customers efficiently, deliver what they promise and minimise their charges.
- The disadvantaged, who are shamelessly neglected by present waiting lists, become, for the first time, purchasers with equal rights.
- It makes fairness a fact, not a myth, in a predictable system delivering value for money.
- Note those who wish to stay with the existing state system can, but who would do that?

### **Health 2012 - the Result**

#### **Summary**

Productivity within the sector has risen by more than 50% since 2000. Competition between managed care organisations and others has raised quality, lowered costs and ensured diversity of choice not imagined possible in the 1990s. Health is like every other business with new providers entering all the time and others exiting. Competition is the norm via market based institutions.

Consumers are now spending their own money to :

- Buy catastrophic (low probability but high cost events) health cover
- Pay for day to day health costs (e.g. visits to doctor)

Providers' income is now dependent on the quality of the service they provide their patients. Wide consumer choice available to all. Innovation and technological change are now the norm and are used to improve quality and lower costs.

Providers continually advertise their wide diversity of products to attract and retain customers, emphasising both quality and price. Information is now freely available to enable consumers to decide which plan to buy.

Experts in the industry produce books that explain the options available and then rank those options relating to quality and price. This makes choice much easier for consumers.

Risk takers (e.g. managed care organisations) often tender work out on the basis of price and quality. Surgeons build up their own teams of nurses and other specialists and rent theatres and hospital beds in order to be able to function with confidence. They do this either as individual doctors owning their own business or in partnership with others.

Consumers have received substantial tax credits to enable them to buy health care on their own behalf or on behalf of their family. Individual consumers are now the key players in health as a result of their buying power. Government bureaucracies are less than a third of the size they were in the 1990s and large hospital institutions compete with one another in the business of health care delivery.

Politicians have largely been removed from the day-to-day activities of health care in much the same way, as they no longer get involved in other aspects of business. Establishing appropriate regulations and environment is their only role having already ensured that all consumers have the means to buy health care.

Health savings plans are readily available to all New Zealanders as a result of tax reductions and/or tax credits being available. Those electing not to do so pay higher taxes.

More than 90% of all hospitals are now owned by the private sector. Property investors rent these hospitals out to a variety of providers.

Health insurance policies are more and more tailored to individual and family needs. Because most areas of surgery are now tendered it is possible for consumers to know exactly what it will cost.

Service to rural and other under-served areas has improved dramatically because of the greater freedom and flexibility now available for them to make their own decisions about how to use the scarce resources available to them. Local communities in these areas are doing a far better job than the politicians ever did.

Use of a cost benefit standard for health and safety regulatory agencies has eliminated a huge amount of waste.

The wide use of educational institutions as part of a wider prevention health care programme introduced by the private sector risk takers has helped lower costs dramatically amongst higher risk groups by reducing the rate of preventable childhood diseases. Health care unit costs fell rapidly over the 10 years to 2012 while total costs are in line with inflation and growth.

Because health care premiums recognise lifestyle factors such as - what we eat, what we drink, whether we smoke, whether we exercise regularly, changes in behaviour are already apparent. Financial incentives have been shown to work.

Normally uninsurable people with known expensive to treat health problems are dealt with via fair premiums within the marketplace - with extra government help being provided to those in need.

Long-term nursing care for the elderly now takes a variety of forms with insurance companies making payments to people not nursing homes. Individuals now only enter nursing homes where the service is worth the price offered and other alternatives are not available.

Insurance policies all now readily available to cover expensive medical technologies both existing and anticipated new procedures. Health care rationing is now largely as a result of patient choice, not government dictated. Patients now consult their doctors as to the desirable level of coverage.

Unnecessary surgery has declined dramatically as a result of information now available as to the costs and benefits of various medical procedures. Administrative costs have fallen dramatically as a result of the move to a market-based system rather than a bureaucratic one.

Despite the profit motive in health today, the results have been the same as they were with Railways, Post Office, Ports and Telecommunications. Prices are down; quality of service is up and services levels expanded and privatised. What does the patient need is now the normal question asked and answered by competing providers.

The developed world is not likely to solve the problems it faces within the welfare sector until they adopt quality reforms rather than simply treat the symptoms. They also need to learn to package the reforms in a way that make them acceptable to voters.