SYNSTRAT

The Ramifications of a Universal Government Dental Scheme Being Introduced

Background

The writer has spent a significant portion of his working life as a government employee, both as a regular Army officer (signals corps) and as Director of Human Resource Management of the Attorney General's Department of Victoria. In the latter position I undertook management and organisational reviews of several significant government officialdoms. Since 1987 I've been involved in providing services to health professionals in the private sector; from 1994 onwards as founding partner and director of Synstrat Accounting Pty Ltd and Synstrat Management Pty Ltd. I observe that there is a vast gap between the mindset which drives bureaucrats and that which motivates practitioners in the private sector.

Government departments typically have two budgetary aspects:

1. On the one hand each department is expected to come up with a modest efficiency saving each year, i.e. through better management, better use of computers etc, they are expected to be able to cut their running cost by 1% or 2%; and
2. The politicians then recycle these 'savings' into 'new initiatives'. Hence bureaucrats are forever seeking to identify new initiatives which they can present to their minister to argue the case for extra funding.

Rearranging Bureaucracy's Deckchairs

The system of public finances tends to creak along by taking from one corner of a department in the name of efficiency and giving to another corner, usually in the same department, in the name of new initiatives. Some new initiatives are probably old processes recycled with new names. We've all learned to be wary of politicians who proclaim that they have improved some aspect of government administration or services. Usually all a politician has done is observed whilst a bunch of bureaucrats have rearranged the deckchairs.

The Economic Concept of a Public Good

The term 'public good' refers to the types of goods and services which are necessary but if not provided by government are unlikely to be provided by the private sector. Classic examples of public goods include the operational units of the Defence Force, state police forces and the judiciary. As citizens we want to live in a protected, lawful society but realistically the only way these services can be provided is if they are paid for centrally from our taxes. As individuals we can't directly buy our share of police protection or our share of national defence.

At the opposite end of the spectrum to public goods are a range of goods and services which should only be provided by the private sector to meet demand. No rational person believes that the government should run movie theatres, restaurants or toy shops. Adam Smith, the founder of modern economics, spoke of the hidden hand, being the law of supply and demand, which determined how many goods and services are consumed and at what price. We don't need a government bureaucracy to tell us how many restaurants there should be. Rather, the degree of patronage of restaurants and the prices which consumers are prepared to pay for their meals either encourage new restaurants to open or force some unprofitable ones to close. This is what Smith meant by his hidden hand.

The Economics of Health

The tricky issue confronting health economists is that demand for health services creates additional demand. All dentists are familiar with a patient who hasn't had treatment for some time through an exaggerated fear of dentistry, but who is eventually forced to come to the dentist to overcome a painful condition. The patient discovers that the experience wasn't nearly as unpleasant as they had thought, and then readily agrees to follow up treatment.

Some of this follow up treatment was less urgent, and some of it may be discretionary in nature, for example cosmetic dentistry.

If all dental treatment were to be made free to the consumer, i.e. the patients, this would lead to an explosion in demand. Many more dentists could set up practices, and the ratio of patients to dentists would plummet. The explosive demand for dental services was demonstrated in the past couple of years when a government scheme to provide emergency dental treatment to a value in excess of $4000 on the recommendation of a medical practitioner has led to an explosion in demand. Those dentists who tuned into the scheme and enjoy a relationship to a referring general practitioner or two have temporarily expanded their fee base. However they recognise that the patients who sought this free care were unlikely to pay for substantial dental treatment voluntarily, despite many having the means to do so.

Medical GPs are notorious for spending other people's money. Stories abound among businesses, including dental practices, of GPs giving employees very loosely worded certificates of absence due to sickness. The doctors are not spending their own money. They are spending somebody else's money by giving away sick leave which small businesses and practices pay for. Understandably some doctors were generous with the dental scheme, and anecdotal evidence from a host of dentists indicates that they were providing vouchers to fund dentistry which was neither urgent nor to meet a serious health-threatening condition.

Similarly it has long been recognised that under universal healthcare arrangements the demand for pathology tests and radiology exploded. Doctors who had previously been careful about recommending services which cost their patients money freely wrote out referrals because much of the cost was being shifted from the patient. This is the basic problem with government-provided health services. The services provided lead to a creation of excessive demand. Businesses which have successfully consolidated medical general practitioners do not expect to make a significant profit from the management of general practitioner services. They are harnessing GPs' referral power to pathology and radiology services and the occupancy of private hospitals which they control.

Hard headed treasury and finance department economists have to continuously fight against the health budget exploding, and resist the temptation of politicians to promise ever-expanding services to the public in order to win votes. They also recognise that when in government, politicians of opposite persuasions are reluctant to cut back on services which the public has become used to expecting. Hence treasury and finance department bureaucrats perennially wage a bureaucratic war with their fellow bureaucrats in the spending departments. Because of the way in which demand for health services expands, the worst of the spending departments is health.

The Impact of Bureaucratic Mindsets

Bureaucrats administer spending programs. The Department of Health's budget, like every other government department, is divided into 'programs', for example a mental health program or an aged care program. The larger the program the more direct the bureaucratic management, the greater the number of public servants who are employed within the department to run it, and the higher the public service rank of the head of the program. Public servants don't have a profit motive, but they do have an ambition to climb the rungs in the public sector order of merit, and the best programs are the ones which endure as opposed to short-term political initiatives which last for a year or two before termination, and which sometimes leave the related public servants in limbo, without a program to administer.

Parkinson's Law was famously a humorous but nevertheless scientifically based study. Parkinson observed that the number of admiralty officials kept expanding, even as the once-huge Royal Navy, which had ruled the world's oceans, reduced to a mere sliver of its once powerful fleet of ships.

We can be certain that if a Denticare scheme is introduced, a cocoon of bureaucrats will graft their careers onto it and do everything in their power to ensure that the scheme endures. If they are faced with a budget cut they'll ensure their own survival by creating rules which ration dental services. Their

mantra will be that they are ensuring that the taxpayers' money is well-spent. However their real motivation may well be to ensure that there is no reduction in the number of public servants administering a 'Denticare program'. The history of bureaucracy indicates that the pain of budget cuts is far more likely to be felt by reducing available dental treatment, whereas the number of public servants administering a program is likely to steadily increase. Even if the number is not increasing, other bureaucratic studies indicate that the average rank, and hence salary of the public servants within the program, will increase. Over the past fifteen years or so the Australian Defence Force experienced a significant reduction in the numbers of uniformed personnel. Furthermore, there was no shortage of influential public servants in the Department of Defence who believed that the uniformed branches of the Defence Force, who in times of war manned the ships, flew the aircraft and fought in the field, could be reduced further. However expert budget analysis of the department has revealed that in recent years the average rank or job classification of public servants in the department continued to grow, thereby creating salary increases over and beyond the official pay adjustments which typically were related to cost of living adjustments. It's another classic adaptation of *Parkinson's Law*.

We predict that if a Denticare scheme is introduced, then:

1. In the short term it will prove to be more expensive than the government has budgeted.
2. In the longer term dentists will find themselves under attack by bureaucrats for over-servicing or over-charging.
3. Eventually this will lead to a rationing of services and dissatisfaction by both patients and dentists.

Australia's National Interest
It's more than a simple issue of putting up taxes a little. Those close to the centre of providing economic advice to governments recognise that a key issue in the long term economic health of the nation is that of controlling healthcare costs.

Ageing Population Impact
This can be exaggerated, but generally an ageing population leads to higher health costs per person. The increase is not exponential because the present generation is healthier at similar ages compared to their parents and grandparents. However the present generation also have higher expectations in respect of healthcare. For example, they expect to retain most of their teeth, augmented by implants, whereas earlier generations expected to end up being totally reliant on dentures. Earlier generations didn't expect to have hip replacements or heart surgery, whereas we expect these expensive medical services to be available to us.

Given the competition for the spending of taxpayers' funds, the largest single problem confronting federal treasury is that the government's health budget is expanding at a much faster rate than either national GDP or the total federal budget. The federal budget is not helped by a much greater proportion of the population being well beyond the qualifying age for the pension (currently age 65 moving to age 67 over time) whereas in 1901 when age pensions were first introduced from age 65, our national average life expectancy was to live to age 59. The first federal parliament could appear to be generous because only a small proportion of the population were expected to live long enough to access the pension, and then mostly only for a short time. Nor is the present situation helped by providing surrogate pensions to many of the population below pensionable age.

A Denticare Scheme?
Prime Minister Rudd has recently pointed to the rising cost of healthcare. Since he's also on record as committing the government to a move back towards a balanced budget following the vast spending on stimulus packages of the past eighteen months, it is difficult to see a Denticare scheme being funded in the 2010 May budget; particularly as Rudd has also promised not to increase taxes and is already being accused of breaking a significant number of his earlier promises.

Fortunately for dentists, it is likely that the Federal Departments of Treasury and Finance will be opposed to a Denticare scheme because of their wider concerns over the ballooning cost of health.

Is a Denticare Scheme Good for Dentists?
The answer is both mixed and conditional. Some dentists look forward to providing 'free' services but their colleagues in medical practice found that Medicare had many undesirable side effects. These included:

- Constant audits to determine whether they were over-servicing, i.e. claiming fees for too many appointments per day or allegedly incorrectly billing by charging short appointments as long appointments. Whilst some doctors did set out to cheat the system, many ethical practitioners were threatened with deregistration for providing proper care. Many doctors saw more patients simply because they worked long hours to meet demand. Not only do government schemes turn practitioners into defacto government employees, but they then strip many of the rights of normal employees away from the practitioners. It's difficult to imagine a teachers' union or a nurses' union tolerating the accusations government bureaucrats have made against doctors.
- In order to control costs, health bureaucrats have fought to ensure that Medicare rebates do not keep pace with rising practice costs. When periodically frustrated doctors elect to cease bulk billing and directly charge patients, they are branded as being greedy. Occasionally poor treatment by health department officials goes too far and causes doctors to leave the Medicare system in droves. Only then does the government offer a significant increase to bulk billing fees for doctors. However the occasional victory for the doctors is rare, and is then followed by long periods when the rebate worsens relative to overhead costs. The larger the demand for health services created by an ageing population the greater will be the attempts by departmental officials to control doctors.
- Health department bureaucrats will quickly copy health funds by rationing dental services to patients and requiring vast amounts of form filling.

Inevitably if a universal Denticare scheme is introduced, dentists will be forced along a similar path as were doctors but more so, since dental services are more easily rationed than are visits to the doctor.

Controls Over Practice

Doctors lost a significant degree of control over their own practices under Medicare. Not only did the Department of Health seek to control their income by determining how many patients they could see and under what conditions, but through a mixture of carrot and stick they sought to define the shape of medical centres. On the one hand they restricted Medicare payments over time, but on the other periodically offered better practice grants for those groups of doctors who complied with the organisational model determined by the bureaucrats. This raises the question as to whether dentists would be forced to co-locate with doctors using a combination of carrot and stick or whether dental treatment would be conditional on referral by a medical general practitioner!

General Health Insurance Tables

Many dentists refuse to become preferred providers for health funds, realising that:

1. The funds make a lot of money from these tables because they are able to ration treatment items to their members. Since dental treatment comprises about half of the items covered in the tables, it is dentists who bear the brunt of this; and
2. Becoming overly reliant on health funds as a source of income makes dentists vulnerable to the funds redirecting their patients if the dentist withdraws from the scheme.

There is an irony in that if a universal Denticare scheme were to be introduced the public would probably no longer pay to belong to general insurance tables. For historic reasons, Labor governments have never been in favour of private health insurance, and would be unlikely to have much sympathy with health funds. They will tolerate health funds to the extent that they alleviate some of the costs of the health budget, but they are not sympathetic towards private health insurance.

A multitude of dentists who refuse to become preferred providers to health funds are likely to find that a Denticare scheme is much more intrusive than the health funds.

The Emerging Oversupply of Dentists

With relatively new dental schools in South East Queensland and Bendigo, and the recent experience of hundreds of overseas trained dentists migrating to Australia, it is apparent that shortages which may have existed are rapidly being filled. Recently country locum vacancies have dried up in Victoria, whilst Melbourne dentists report floods of job applications from dentists who appear to have been mainly trained in Indian dental schools. The Australian Dental Council examination system is a useful qualitative filter. However no examination system can totally substitute where there has been a lack of clinical training. It is apparent that if there is not already an over-supply of dentists that it is not far distant. Universities have not been backward in putting forward justifications to government for new dental schools, and it is likely that the approvals of the more recent have not been subjected to as rigid an appraisal as was warranted. The bureaucrats who champion new dental schemes or were advocates

of high dental immigration are unlikely to admit their errors. Those who viewed the television series Yes Minister and Yes Prime Minister can also recall the great lengths that Sir Humphrey went to in order to bury his mistakes.

A Universal Dental Scheme is Not Needed

On a national basis it is likely that we are close to the equilibrium point at which the available number of dental appointments matches the patient demand. Inevitably there will always be locations in which there is an under-supply of dental services or an overabundance of patients. Already there are some areas of Melbourne with an obvious over-supply of dentists. Generally the majority of the population who need dental treatment can access it and are able to afford it. In a nation with a generally satisfactory standard of living, there is no necessity for a national Denticare scheme. The great bulk of the population can and do pay directly for dental services. From a point of view of maintaining standards and satisfying consumers, this is the best situation as consumers are more likely to value treatment which they pay for and, alternatively, take dentists to task for treatment for which they have paid but which does not meet expectations.

Safety Net

In any society there is always a portion of the population who, through accidents of birth or personal misfortune, simply cannot afford competent dental care. The case for a safety net scheme for these individuals is undeniable in a just society. However these benefits need to be well targeted to reach the intended beneficiaries. Unfortunately the history of government-run dental schemes in Australia has been that some have been poorly targeted and have resulted in the comparatively well-off getting free treatment at the expense of the taxpayer. Indeed the ability of the better-off to access these schemes is invariably to the disadvantage of the patients who truly need them, who are pushed to the back of the queue by those who are better connected in terms of getting the necessary vouchers, referral or whatever the criteria is. Unfortunately Australia's social welfare scheme has, to some extent, become a large money churn, which doesn't always hit the target. Bureaucrats love the churn system because managing it provides them with many of the jobs that they aspire to.

The current GP voucher scheme has been recognised as costing the public purse too much and not being well targeted. However the politics of political payback means that opposition parties have blocked legislation aimed at repealing this scheme in the senate, almost certainly in retaliation for similar actions by Labor party senators when the Coalition was in government. Even if the legislation is not repealed, it is predicted that the scheme will die out by not being funded. The health department will write to dentists informing them that they've run out of funds and can't guarantee to pay their bills for these schemes without a lengthy delay. Dentists who need to be paid for the work they do in order to keep their practices running will then phase out patients from this source.

Pensioner Discounts

Many dentists are cynical concerning patients who ask for pensioner discounts and who then drive away in late model imported cars, to homes located at relatively expensive addresses. Many of these pensioners have several hundred thousand dollars of financial assets tucked away and in reality are living at a much higher standard of living than are many young families with mortgages. A dentist we know did some original research by viewing the homes of pensioner patients on Google Earth, and deciding that it was ethical for him to dispense with pensioner discounts on the basis of what he found.

A government scheme about a dozen years ago resulted in obviously well-to-do patients attending appointments with vouchers to get free dental care prior to proceeding on overseas holidays. Unfortunately our political system and the way in which bureaucrats administer services leads to many such rorts.

If only there was a way of identifying the genuinely underprivileged it would be easier for both dentists and government to provide them with essential dental care at reasonable cost to the federal budget, without providing for free expensive services to the non deserving.

The true bureaucratic failing has been their inability to devise a scheme to advise to government which is well targeted towards the genuine needy. Their failure to do this invariably leads to whichever scheme is put forward being rorted. It is then attacked by the Department of Finance and cut out. In due course problems re-emerge and another poorly designed scheme is put forward. This is not confined to dentistry, as recent examples in a number of other Federal Government programs have illustrated the ability of particular interest groups to capture and misdirect government spending, or for substantial cost overruns to occur. Having once lived in Canberra for three years I can attest to the isolation of public

sector employees from the real issues confronting most of Australia. This is allied with a public service act of faith that the public service knows best how to advise government and spend the taxpayers' money.

The Political Imperative

The political imperative isn't to provide services to any particular group, despite what politicians say. Rather the political imperative is to get re-elected. This political imperative means that virtually all government attention is actually focussed on marginal electorates. The Australian electoral system doesn't elect a party with the majority of votes to government. It rewards the party which wins the majority of seats with government. Since many seats are obviously either safe Labor seats or safe Coalition seats, the real political battle is for the hearts and minds of the electors in the so-called marginals. Hence in government politicians spend much of their energy in determining how they can provide targeted government services which pump money into these marginal seats. The public, it seems, are willing to accept this distortion of our political system. From a political perspective, the problem with dental schemes is that they cannot be targeted to the marginal seats which must be won or held to secure government. Letters and entreaties to politicians seeking assistance are far more likely to attract the attention of political advisers and politicians if they come from a postcode located in a marginal electorate. In reality, Australia's system of government often comes down to allocating services by postcode. The majority of the most needy are concentrated in safe Labor seats, and since the party is going to win those seats anyway, it concentrates spending government expenditure on the more affluent marginal seats. It is as equally naïve to believe that the Labor party is truly representative of the poorest electorates as it is to believe that the Coalition is concerned about the wealthy living in blue ribbon seats. In reality, both government and opposition parties take those particular constituencies for granted and concentrate on the middle ground. The result is that marginal electorates receive an unfair allocation of taxpayer funded largesse.

Summary

Whilst a national Denticare scheme is now less likely in the next budget because of the imperative to rein in government expenditure and concerns about exploding health budgets, it remains a concern of dentists. A universal Denticare scheme is not necessary, and would greatly harm the dental profession.

By GRAHAM MIDDLETON, BA, MBA, AFAIM

Graham Middleton personally has been advising dentists on strategic, practice management, valuation and conflict resolution processes for 23 years, the last 16 as a partner and director of Synstrat Management Pty Ltd and Synstrat Accounting Pty Ltd. He was once a regular army officer, and later Director Human Resources Manager, Attorney General's Department of Victoria. He is considered an expert on dental practice valuation and practice performance benchmarking. He has spent many years advising dentists in respect of their business and financial strategy and measuring their practice and financial performance. The Synstrat Group is an independent data-based organisation providing management, benchmarking, valuation, financial and accounting services to the dental profession. Synstrat Management Pty Ltd is a Licensed Dealer owned by its directors who work within the Synstrat Group. Graham is considered an expert on dental practice valuation and practice performance benchmarking as well as advising dentists on many other issues.

Tel: (03)9843 7777 Fax: (03)9843 7799 Internet: www.synstrat.com.au
Email: dental@synstrat.com.au