

CAPITAL IDEA BRIAN TOOHEY

Gillard soldiers on with foot in mouth

If the PM isn't across history, someone in her office should be.

It is difficult to believe that Julia Gillard pauses to think before delivering a speech or policy pronouncement. In her speech on Wednesday to open a Chinese-Australian war memorial in Queensland, the Prime Minister gave Australia's minor participation in a colonial war in Sudan in 1885 as one example of what she described as "not only a test of wartime courage, but a test of character, that has helped define our nation and create the sense of who we are".

Nominating the Sudan deployment as the first in a series of military expeditions, Gillard said: "We live in a free country – and in a largely free world – only because the Australian people answered the call when the time of decision came."

The Sudan engagement has nothing to do with Australia's freedom, let alone Sudan's. Nor did it create an enduring "sense of who we are" – unless she means cringe-making braggarts who claim to live in a world that is largely free "only" because they always "answer the call".

Far from being a noble chapter in Australian history, the Sudan adventure was a minor farce. In 1885, the NSW government sent a contingent of 758 soldiers to the Sudan to avenge the death of General Charles Gordon during a popular uprising against control from the then British-occupied Egypt. Dubbed "Chinese" Gordon for his military exploits in China, including service to secure a market for British drug dealers in the second opium war, the general was deployed to Sudan to evacuate Egyptian troops defeated during the uprising. Disobeying orders, Gordon attacked the Sudanese, lost and was beheaded.

Not all Australians were happy to "answer the call" before the NSW contingent sailed on March 3, 1885. The Australian War Memorial's history says: "Meetings intended to launch a



patriotic fund and endorse the government's action were poorly attended in many working-class suburbs, and many of those who turned up voted against the fund. In some country centres there was a significant anti-war response, while miners in rural districts were said to be in "fierce opposition".

Instead of providing a chance to display the "wartime courage" Gillard lauded, the action was over by the time the contingent arrived in the Sudan on March 29. The war memorial says: "Far from the excitement they had imagined, the Australians suffered mostly from the enforced idleness of guard duties." They sailed for home on May 17, 1885.

Perhaps Gillard's speech should be seen as little more than a string of clichés intended to counter Coalition leader Tony Abbott's appeal among those who like to

hear that the Australian character was forged on foreign battlefields. But this hardly excuses the stunning ineptitude of her references to Sudan.

Only a few days earlier, Gillard stumbled badly in a speech covering Labor's "historic mission". Although this should be more familiar territory than the Sudan, her core claim about recent economic history does not stand up. Delivering the Whitlam Institute's inaugural Gough Whitlam Oration on March 31, she claimed Labor had "moved beyond the days of big government and big welfare". The Whitlam government was an implicit culprit on the spending front. (Apart from unavoidable outlays on the war effort, the Curtin and Chifley Labor governments in the 1940s were not big spenders in today's terms.)

However, the budget papers

show that the Gillard government spends more as a proportion of gross domestic product than Whitlam's did. Education is the main exception, despite the Prime Minister's claim to be "passionate about education".

On average, the Fraser, Hawke, Keating, Howard and Rudd governments also spent more than the Whitlam government did while it was in power from December 1972 until November 1975. Spending peaked in Whitlam's last budget at 24.2 per cent of GDP, compared with 26.2 per cent in 2009-10 and an estimated 25.1 per cent in 2010-11.

All governments after Whitlam's have greatly expanded direct welfare spending. Paul Keating initiated a huge increase in tax expenditures on welfare measures, most notably for support for retirement incomes via superannuation concessions.

Many of Whitlam's reforms, such as no-fault divorce, had no adverse budgetary impact. There is no question, however, that he increased government spending significantly – not that he made any secret of his intentions before the 1972 election.

He further boosted spending in response to the international recession triggered by the quadrupling of oil prices in 1973 and '74. In this writer's view, the increases were too sharp. Even so, the budget deficit peaked at only 1.8 per cent of GDP compared with the 4 per cent deficit due to Keating's self-inflicted recession and the Rudd government's deficit of 4.4 per cent in response to the global financial crisis.

If Gillard is not on top of the figures, someone in her office should be. Similar considerations apply to her policy to put a price on emissions of carbon dioxide. Gillard repeatedly claims the price of some grocery items will go up because they have more "embedded carbon pollution" than others. Once the suppliers of the dearer items lose customers, she says, "they will innovate". This claim is much too glib.

Because the suppliers will face pretty much the same (minor) cost impact, there won't be big changes between the prices of most alternative grocery items. The main ingredient – food – won't be subject to the carbon tax. The producers of inputs such as electricity may pass on some small cost rises to grocery suppliers after receiving government compensation. But the major supermarket chains have long screwed down so hard on their suppliers that they have already exhausted most opportunities to cut costs through innovation.

More scope for innovation may lie with electricity generators and other big polluters. Whether they innovate, however, depends on whether it makes sense to risk investing large sums in research and development that may never bear fruit. But someone should explain to Gillard that suppliers to supermarkets won't be able to do much more innovation.

DRUGS LESLEY RUSSELL AND SILVANA ANTHONY

Labor takes a wrong turn with PBS changes

It is no secret that the Gillard government is doing whatever it takes to achieve the promised projected path back to a budget surplus. It is no great surprise that this government, and the Coalition government before it, has tried to put Australia's much revered pharmaceutical benefits scheme on a more sustainable fiscal footing.

But what is a surprise is the Labor government's declaration that it will not add new medicines that are recommended for listing and subsidy by the pharmaceutical benefits scheme advisory committee unless these recommended medicines save lives, or there is no other medicine available, or some other budget item is cut to pay for the cost.

The PBS approval process is probably the most robust, evidenced-based process that any government spending must go through. This decision undermines

the very essence of the PBS, which is based on cost-effectiveness.

The PBS has been in place since 1948. Although it is not part of Medicare in a systemic sense, it is a critical part of Australia's healthcare system. It gives all Australians access to affordable and needed medicines which save lives, improve quality of life and help ensure people with chronic illnesses can continue to work and function in the community.

The cost-effectiveness analysis all medicines must pass to be listed on the PBS and the tough negotiations between government and manufacturers about price and risk sharing also help control costs while ensuring medicines can be listed as they come to market. Almost all the growth in the PBS in recent years is attributable to the listing of expensive new biologic drugs for the treatment of cancer and other life-threatening illnesses.

The PBS has also been a very progressive pillar of Australian policy, with data showing that the poorest people get the best deal out of the policy.

However, policy changes in recent years to shift more of the cost of prescription medicines to patients have had some well-documented adverse effects. Increasing numbers of patients are failing to fill scripts for medicines needed to manage chronic illness, or to take their medicines as prescribed, because of cost.

A recent study from the Menzies Centre for Health Policy indicates doctors are concerned that their patients get sicker, are more likely to end up in hospital – or even die – as a result of such behaviour.

Co-payments have increased the cost of PBS-listed medicines for patients, but the measures did not undermine the policy process which requires that cabinet

always consider new drugs if the PBAC recommended their listing.

Now that the Labor government has put a freeze on cabinet's consideration of medicines recommended by the PBAC, it is effectively putting a stop to the committee's workings. This has an impact on the pharmaceutical industry's ability to list new innovations in medicines. Given the time and costs involved in getting a drug considered and listed by the PBAC, it almost certainly also has an impact on their enthusiasm for the process.

The government will need to tread carefully to ensure it does not hand the pharmaceutical industry a "free kick" – that is, justification that a free market system is superior in delivering innovative (but not necessarily affordable) medicines.

The net result is that the ability of the PBS to be the centrepiece of the putative efforts of the

federal government to place a greater focus on prevention, on the better management of chronic illness, and on mental health is seriously undermined.

But perhaps the most serious damage is done to the government's credibility as it – without explanation and without any apparent consideration – makes a unilateral decision to cast aside a formal regulatory approval process that is internationally envied and emulated.

On what basis will cabinet now decide which drugs are listed on the PBS – lobbying pressures, cost (as opposed to cost-effectiveness), or their own scientific and medical backgrounds?

Lesley Russell is a research associate at the Menzies Centre for Health Policy and Silvana Anthony is a former Treasury official. They are senior advisers at Macroeconomics.