



A dilemma of Chinese healthcare reform: How to re-define government roles? [☆]

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ARTICLE INFO

Article history:

Received 8 January 2009

Received in revised form 6 April 2009

Accepted 8 April 2009

Keywords:

Health

Health care markets

Government policy

China

Reform

ABSTRACT

This paper discusses the government's roles in the healthcare sector in China. The paper begins with an introduction to the Chinese healthcare sector (supply and demand side) and to the current government's roles. It then reviews the recent transformation of the healthcare sector, with an emphasis on the change in the government's roles and the problems resulting from this transformation. The following is an examination of the latest healthcare reform policies and an exploration of pending government roles. Contrary to the opinion that problems existing in Chinese healthcare are primarily caused by market failure, this paper argues that the historically ambiguous and inappropriate roles of government in the provision of health care should be reexamined. This paper concludes that the most important issue facing the Chinese healthcare sector is finding the optimal balance between market and government.

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1. Introduction

The Chinese government officially initiated a new round reform in 2006. As the major decision-maker holding the power to effect swift and radical changes, the Chinese government encountered a range of interrelated issues, including the redefinition and transition of the role of the government in the healthcare sector. The transition provides China with an opportunity to radically improve the coverage and performance of its healthcare sector.

China has learned some lessons from previous domestic and international attempts to reform healthcare. In the planned economy era, government paternalism was predominant. The healthcare reform beginning from the late 1980s was characterized by abrupt government reduction in the health care sector and reliance on market-provided care. Today, critics attribute the problems of the healthcare sector to the introduction of market mechanisms and market failure (Ge & Gong, 2007). These critics argue that reverting to a greater government role would be the best solution to these problems. However, the question remains as to how the government's role should be defined. China is currently standing at a crossroads.

2. Healthcare sector configuration and reform: Challenges facing China

This section is an overview of the provision of health care services and demand for healthcare in China.

2.1. Healthcare delivery and the government's roles

State-owned hospitals operated by central or local governments are the backbone of the Chinese health service delivery system. There are plentiful small-scale private institutions and clinics, yet non-state involvement in healthcare service supply remains

[☆] The paper is funded by the "211 Research Project" in China.

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limited. Although the number of state-owned institutions is nearly 50% of the total, these institutions provide more than 90% of health resources and account for an overwhelming market share.

In 2007, state-owned hospitals accounted for 2.995 million out of 3.701 million beds in medical institutions, with a bed utilization rate in state-owned hospitals of 73.8%. State-owned hospitals accounted for 4.557 million out of a total of 5.907 million health care employees. Additionally, there were 2.429 billion inpatient visits to state-owned hospitals, compared to 468 million visits to private institutions and clinics, and there were a total of 87 million outpatient visits to state-owned hospitals, in contrast to the 2.9 million reported for private institutions and clinics (*Yearbook of Chinese Health Statistics, 2008*).

The Chinese government has direct control over the management and operation of state-owned hospitals, and these hospitals have little autonomy. Hospitals' presidents and other chief leaders, who are appointed by the government and hold administrative titles, have a low turnover rate than their counterparts in the private sector. Although the government strictly regulates service fees and salaries, state-owned hospitals are permitted to offer performance-based salaries to their staff. These performance-based salaries are derived from the number of patients seen, the number of beds used, etc. In other words, the government determines the number and positions of hospital staff, but the hospital presidents have the power to select subordinates. In the meantime, the government undertakes supervisory responsibilities.

2.2. The consumer side of healthcare

Institutionally, the basic social medical insurance system in China consists of three schemes: Basic Social Medical Insurance for Urban Employees, which has been running since 1998; New Rural Cooperative Medical Insurance Scheme, which was launched in 2003; and Basic Social Medical Insurance for Urban Residents, which began pilot testing in selected cities in 2007.¹ Currently, most consumers mainly rely on the basic social medical insurance to pay for their health care bills. Although the New Rural Cooperative Medical Insurance Scheme and the Basic Social Medical Insurance for Urban Residents were only recently established, they have been rapidly expanding into both urban and rural areas. In contrast, commercial health insurance has lagged behind, with extremely low market shares. By 2007, there were 180 millions people covered by Social Basic Medical Insurance for Urban Employers (*Chinese Social Insurance Development Report, 2007*), while 810 millions joined New Cooperative Medical Insurance by 2008 (*Chinese Health Reform and Development Report, 2008*). Commercial health insurance only accounted for 7.6% of the total market share, and it mainly served upper class individuals (*Yearbook of Chinese Health Statistics, 2008*). Moreover, commercial health insurance categories have been, and remain, quite limited. Catastrophic disease insurance applies only to certain critical diseases such as cancer; medical reimbursement insurance reimburses fees incurred from medical services and related drugs, and medical allowance insurance only covers bed utilization fees and accommodation fees during hospitalization.

The Chinese government has announced a goal of achieving universal coverage of basic social medical insurance, and aims at reaching 90% penetration by 2011. The Chinese government will enforce the three medical insurance schemes and has established government departments responsible for their operation, such as collecting insurance premiums, managing funds, and reimbursing healthcare services. The government will even continuously pay the healthcare schemes for rural and urban residents. Lately, a few commercial insurance corporations have played a role in funding and managing the New Rural Cooperative Medical Insurance in some areas. Although their role is very limited, it shows that the government is at least considering the involvement of commercial insurance corporations.

2.3. An international perspective

Weidenbaum (1990) asserts that the government might play a role in the healthcare service sector as an insurer, a purchaser, an employer, a sponsor, a planner, and a regulator. However, the government's role in the healthcare sector varies from country to country.

In the United States, the market mechanism is overwhelming. Private hospitals are major health service providers, while there are relatively few state-owned hospitals. Hospitals owned by the federal government are mainly military hospitals. Other public hospitals, including university-affiliated hospitals and state and municipal hospitals, account for approximately 25% of total hospitals, 18% of inpatient services, and 23% of outpatient services, respectively (*Fast Facts of American Hospital Association, 2008*). Public hospitals had been seen shut down, merged, or privatized at a rapid rate in the late 1990s. In fact, 1% public hospitals closes every year and 2% become privately managed. The government takes full financial responsibility for public hospitals, but it has no direct management over them. Meanwhile, the government is primarily responsible for the overall planning, registration, physician licensing, and external monitoring of public hospitals (Jonas, 2003). The federal government also administers a few national health insurance programs, including Medicare, Medicaid, and the State Children's Health Insurance Program.

The British government establishes and subsidizes public hospitals. The tax-based National Health System was established to provide free medical service to all citizens (Wu, 2003). However, there is no social medical insurance plan in the UK. In the past two decades, most healthcare reform efforts have concentrated on public hospital reform, yet British healthcare reform has been introducing an increasing number of market mechanisms, such as internal competition between public hospitals and social investment in public hospitals (NHS Foundation Trust, 2008).

¹ See Appendix A for a more detailed introduction to Chinese basic social medical insurance.

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