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Unintended Consequences of Supply-Side Cost Control? Evidence from China's New Cooperative Medical Scheme*

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Abstract

We examine the effects of a “per-episode fee limit” that was recently implemented as a cost-control policy in China's health care system. Using hospital administrative data on a rural public health insurance program in China, we find that hospital departments dynamically adjust episode fees in response to the level of stress under fee limits. We also document anomalous cycles in the fees and length of stay of discharged episodes, which are consistent with the dynamically optimizing behavior to comply with the fee limit. We find qualitatively similar results in administrative data from an urban public health insurance program.

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