The Economist

Health-care reform

Heroes dare to cross

Two articles examine the crisis in China's health-care system. In the first we look at how China pays the bills

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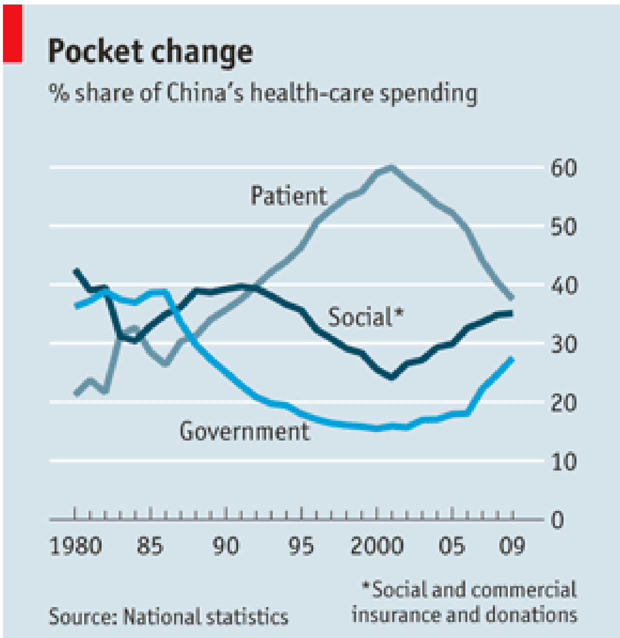
SO INSPIRED was China's health minister, Chen Zhu, by a new push to reform the country's dysfunctional health-care system that he wrote a poem. "Wind and thunder move across the country, health reform brings good tidings," read the first lines of the paean, dutifully printed on the front page of his ministry's newspaper. But few share Mr Chen's optimism. The latest phase of China's health-care reforms could prove difficult, as hospitals and doctors are asked to end their financial dependence on medicine sales. The wind and thunder could drown out the good tidings.



When China's market reforms began in 1978 medical user fees soared. The share of total health spending borne by patients rose from 20% in 1978 to nearly 60% in 2001. State-owned enterprises, which had once shouldered much of the burden, crumbled, and in 2000 the World Health Organisation ranked China fourth from last among 191 countries in terms of the fairness of financial contributions to its health system. Health care became one of the country's most explosive social issues (see article (http://www.economist.com/node/21559377)). The share of patient spending has since fallen as the government began to address the problem (see chart) but the latest reform measures are part of an accelerated drive to overhaul the system.

Reform began in earnest in 2009 with a pledge to spend more than $120 billion over three years. Funding has been poured into new community-health centres and training for doctors to staff them, and has enabled 172m more Chinese people to join subsidised insurance schemes. By the end of 2011, 95% of citizens had some form of insurance, up from less than one-third in 2003 (though a recent study in the *Lancet*, a British journal, found that the percentage of households suffering "catastrophic" health expenses barely changed between 2003 and 2011).

These measures have done little to solve a fundamental cause of public dissatisfaction with the health service: the fact that hospitals pay for their staff by selling medicine. Gordon Liu of Peking University says about 40% of hospital revenues typically come from such sales, with another 40-50% from services such as diagnostic tests and treatments. Less than 10% comes directly from the government.

On June 25th the Ministry of Health told 311 of the more than 2,000 counties in China to experiment with reforms aimed at weaning hospitals away from medicine sales. This month they were joined by a sprinkling of larger city hospitals, including Beijing's Friendship Hospital (built by the Soviet Union as a comradely gift) and all the public hospitals in the southern city of Shenzhen. Xinhua, a state-run news agency, said these hospitals had embarked on "the boldest and hardest part" of China's medical overhaul.

Banners and notices in the Friendship Hospital's foyer proclaim the changes: no more mark-ups on medicine prices (hospitals are normally allowed to add up to 15%) or charges for diagnosis, and no more registration fees. Instead, a new fee has been introduced for "medical service". This is a striking innovation. China's doctors are usually paid just a few hundred dollars a month, a pittance in comparison with their Western counterparts and with private-sector professionals in China. In most Chinese hospitals, their share of profits from the sale of medicines is supposed to make up for this. At the Friendship Hospital, the new fee is meant to plug this gap. Patients can choose between different types of doctor, from a visit to an "ordinary" one at 42 yuan ($6.60) to a consultation with a "famous specialist", costing 100 yuan.

The idea is that doctors will lose their incentive to over-prescribe medicines and tests, which has led to crippling costs for Chinese patients, whether or not they have insurance. (In 2010 those insured still had to bear 60-70% of their outpatient costs and more than half of their expenditure for inpatient treatment, according to another recent study in the *Lancet*.)

The Friendship Hospital's price list notes that insurance will cover up to 40 yuan of the new medical service fee, meaning an out-of-pocket payment of just 2 yuan for a consultation with an "ordinary" doctor. At the hospital pharmacy, a list of the old and new prices of medicines scrolls endlessly on a huge digital display, like a stockmarket update: ceftriaxone (an antibiotic) at 57.13 yuan, down from 65.69; Hirudoid cream (for bruising), down to 27.41 from 31.52.

But some patients are sceptical. A 65-year-old woman says that last year she had to pay 10,000 yuan ($1,570) of her own money for treatment of her various ailments, even though she is insured. That amounted to five months' pension payments. She worries that the new system will be no cheaper. Her complicated conditions will require more than just ordinary doctors and she will need to see several different specialists. She says the pharmacy does not always have the medicines she needs, forcing her to use others that are not on the list of drugs for which the government offers reimbursement.

Official media say the cut in the price of medicines will cost the hospital about 2m yuan in lost revenue this year. The government, they add, has promised to help cover this. But many experts believe that doctors and hospital administrators will have misgivings about the reforms. Doctors risk losing not only the direct benefits they receive from medicine sales, but also the kickbacks they receive from medicine companies when they stock their products and prescribe them.

Mr Liu of Peking University reckons this "grey income" can amount to much more than doctors' official salaries or what they receive from the mark-up on medicine sales. Because it is under the table, officials struggle to factor it into their reforms. Yet they are reluctant to boost doctors' salaries, not least because they worry that many others on the government payroll would immediately demand pay rises too.

Crossing the river by feeling the stones

Various experiments with *yiyao fenkai*, or "hospital and medicine separation", at lower-level hospitals have provided little encouragement. A study last year by government researchers in Hebei, the province surrounding Beijing, found that hospital managers were afraid that local governments would not make up for the loss of revenue from medicines and that hospitals would find it increasingly hard to cover their operating costs. "Expressions of support for reform in public hospitals are cold and cheerless," the report said. Without clearer guarantees of financial support from the government, it said, doctors' misgivings would harden into resistance and the reforms would struggle to succeed.

As Zhu Hengpeng of the Chinese Academy of Social Sciences points out, progress in the 311 counties chosen so far may not offer a clear guide as to how reform on a wider scale will work. Doctors will worry most in the poorest counties, where governments may well be unwilling to make up for their losses. But officials say they want to extend the reforms nationwide late next year at the county level. The plan is for all public hospitals to put them into practice by 2015. (Reformists are cheered by the thought that Li Keqiang, the man in charge of health reform, is almost certain to take over as prime minister next year.) "The deep pool is nothing to be afraid of," wrote Mr Chen, the poet-minister. "Heroes dare to cross."

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