Privatisation: In whose interests?

The government is supporting a policy of privatisation as part of a solution to the hospital crisis. *Critical Health* questioned Max Price from the Centre for the Study of Health Policy on privatisation and the financing of the hospital services. These were his comments:

People mean different things when they speak of privatisation. We need to ask what it is that the government means. I don't think the government knows what it means. But let us analyse the options.

1 Contracting out certain services

One can think of four types of privatisation. The first type of privatisation is where certain services (laundry or catering, for example) are contracted out to private companies. Some people argue that this will provide the incentive for efficiency. I don't have any strong objections to this as it would not discriminate against the poor nor would it effect the quality of health care. A problem could arise if one company gains a monopoly over the service, it may allow the company to 'hold the hospital to ransom' but this is not the major debate over privatisation.

2 Fee-for-service

The second type of privatisation is when doctors and others involved in health care delivery are paid on a fee-for-service basis rather than on the salary and fixed budget system operating in the public hospitals. Supporters of privatisation argue that the freedom of the consumer to choose, forces providers to compete and to provide the best service for the lowest cost. But health care is different from other free market commodities. With any other commodity the consumers have time to search for the best option and may be relatively well-informed. However, when people are sick they usually don't have time to 'shop around'.

Furthermore, in South Africa, doctors have agreed not to advertise nor to compete and hence have fixed prices. Patients' choices are usually limited in that once they have been seen, the doctor decides on which hospital the patient will go to, according to where that doctor is working. S/he will also determine how long the patient must remain in hospital. There is no incentive for these doctors to provide cheaper drugs or to limit the number of investigations done. Many

'consumers' don't have the necessary medical knowledge to make an educated choice.

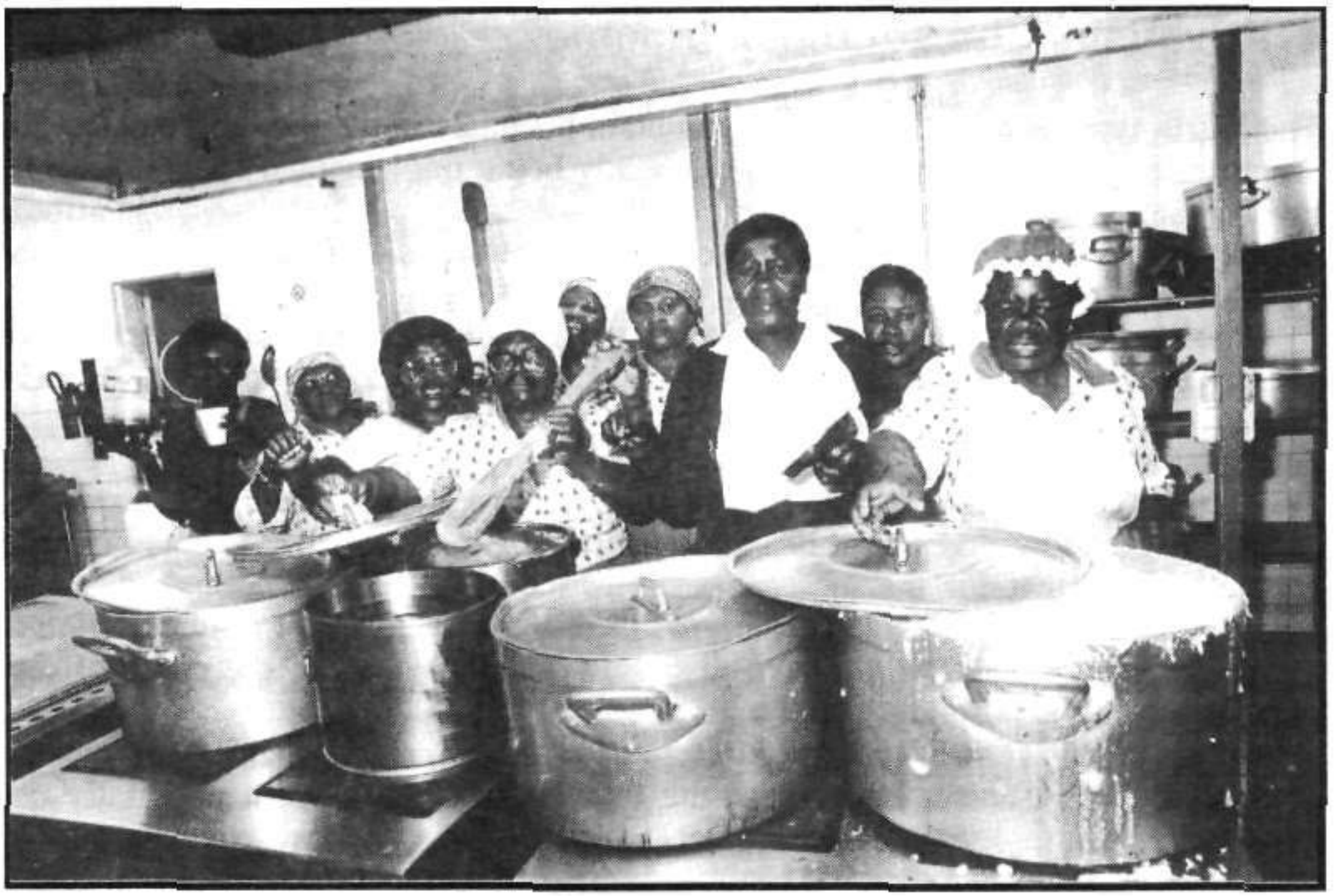
The market mechanisms therefore do not operate to keep costs down. In my opinion, it is this method of reimbursement (ie fee-for-service) that is causing cost *escalation because doctors and hospitals have a financial incentive to do as much* as possible.

Health is not a commodity. Sick people are not able to 'shop around' for their best options

3 Selling provincial hospitals

The third form of privatisation is to sell off provincial hospitals to the private sector. People will then pay for themselves if they can afford it and if not the state will have to pay the hospital for them. Practically, the government could never afford this. The majority of people in this country probably can't afford to pay and they will remain the state's responsibility.

Another problem with selling off the provincial hospitals is that teaching and research can only be done in teaching hospitals linked to the university with a wide scope of illness.



One type of privatisation is to contract out services such as catering

I think these three forms of privatisation would be disastrous. The main reason is they would introduce a massive escalation in cost. In the private sector, medical aid premiums (which gives one a fair idea of the cost of health care per member) have increased by 600% over one decade whereas the consumer price index (which reflects the cost of living and to some extent wage increases) has increased by only 300%. In other words the cost of private medical care has increased twice as fast as the inflation rate. Public expenditure has also increased above the cost of living but not as much. The evidence indicates that cost escalation in the private sector is much greater than in the public sector.

We should note that there are some private hospitals, such as those run by the Smith Mitchell group, which do not work on a fee-for-service basis. They are paid fixed amounts by the government for patients that can't afford private care. Unlike the incentive in the fee-for- service which is to increase costs, in this service the incentive is to decrease costs as any expenses over and above the fixed rate paid by the government, must come out of the private company's profits. This discourages unnecessary costly investigations but it can also lead to a decrease in the quality of care.

In the USA, where elements of this system are found, widespread litigation acts as a safeguard against this. In South Africa, however, litigation is not common and other controls would be required.

4 Privatising the source of income

The fourth type of privatisation is to maintain hospitals in the public sector but to privatise the source of income. This is already being implemented to an extent. It involves the public hospitals charging private rates to those patients who can afford it. The intention is to encourage those who can afford the private rates to go to private hospitals.

Problems associated with this type of privatisation are that at present these patients are the most articulate and their absence may reduce the political pressure on the government for improvements within the public hospitals. Health care could deteriorate as a result.

Another problem is that if more people left for the private hospitals, the private sector would grow and possibly create a two tier and probably unequal health service. Given that for the forseeable future there will not be enough doctors, nurses and other health workers, the growth of the private sector may undermine the public sector. This, as we have discussed before, is part of the cause of the crisis in the public hospitals already.

However, this form of privatisation, ie drawing on private sources of finance, does offer a mechanism to increase the total money being spent nationally on health care. A future socialist government may well have to consider a system of a unitary, government run national health service with those who can afford to, being charged private fees. These people would subsidise the health care of the poor. This would only work if the government is committed to providing good health care to the poor. If not, the extra money may well be channelled into defence or into the maintenance of regional, racial and class inequalities. A single unitary health service owned by the government (ie a national health service) but allowing for private sources of financing would not produce an unequal service for rich and *poor and would eliminate the problem of competition between sectors of doctors* and nurses. This system may well serve as a form of redistribution of wealth. These ideas are not definitive but are presented for debate.