A National Health Service and the future of the private sector - the case for a National Health Insurance

by the Centre for Health Policy

Debates about how the future economy will have to tackle entrenched inequalities are forthcoming and necessary. However, there has been a neglect in debating how to restructure the disproportionate public and private sector health services. This article examines a number of options concerning the financing of health services and, in particular, examines the future role of the private sector.

The Need for Debate on Social Policy

The economic policy of a future "Post-apartheid" government is one of the most hotly contested issues at present. Some of the main opponents in the debate do however share some common ground. They agree that a future economy will have to combine both:

i. Sustained economic growth and

ii. The reduction of the massive social inequalities that have resulted from

apartheid. There will need to be rapid social and economic development for previously dispossessed communities.

Development, it is agreed, cannot occur without growth. Growth cannot occur without the stability brought about by development.

While there has been intense debate about the broader economy there has been little public debate about the future organisation and funding of social services such as health, welfare and education. This absence of debate is also worrying because it may reflect the mistaken belief that the elimination of apartheid will itself correct the deep inequalities that apartheid has brought about in our social services.

This paper aims to examine some issues relating to the financing of health care, and most particularly to the future role of the private sector.

The size and impact of the private health sector

The private sector is a crucial part of the present health care system. Total health care expenditure in South Africa was about R12 Billion in 1989 (nearly 6% of the Gross National Product). The private sector consumes nearly half of this amount.

Furthermore, the private sector employs about 50% of the doctors, 90% of dentists, many nurses, and the vast majority of pharmacists. About 25% of hospital beds are found in the private sector. The private sector also enjoys the loyalty of many of its "consumers" (that is, patients) because of high standards of personalised care, continuity of care and the freedom to choose ones doctor.

There is little doubt, however, that the private sector in its current form is a major obstacle to the creation of an equitable, efficient, and appropriate health service.

The private sector and inequality

Despite consuming nearly half of all resources available for health care, the private sector provides (largely curative) care to only 20% of the population. Due to the fact that the private sector operates in response to market forces, private health care delivery is heavily concentrated in the densely populated wealthier urban areas.The private sector contributes little to alleviating the desperate shortage of resources in rural areas.

The growth of the private sector has also contributed to the deterioration in public sector care, by attracting many highly skilled doctors and nurses away from the public service, and towards the more highly paid jobs in the private sector.

The private sector and inefficiency

In an economic sense the private sector is highly inefficient. Measured by medical aid contributions, the cost of private care to the consumer has risen by 23% a year for the last decade. This is several points above the general rate of inflation, and is a trend that appears to be escalating.

The uncontrollable cost increases are evidence of the excessive, and often unnecessary use of services in the private health sector. This results from the nature of incentives in the private health sector: there is an incentive for hospitals and doctors to do too much, and for patients to demand too much, and neither the users nor the consumers are concerned about the costs since "the medical aid is paying"

As the costs of belonging to medical aid schemes increase, medical aid schemes are paying for a smaller proportion of medical costs. Proposed changes to the law, if passed, will even enable medical aid schemes to withhold cover entirely from high-risk individuals, such as the elderly and chronically ill.

Medical aid schemes, attempting to control the costs of medical care, are increasingly involved in bitter disputes with private health care providers - general practitioners, private specialists and private hospitals. A full-blown crisis in private health care seems likely if the medical aid schemes and the providers of private care remain deadlocked while costs relentlessly escalate. Indeed, it is arguable that the crisis has only been prevented by the major subsidy which the state provides to employers in the form of tax concessions for their contributions to employee's medical aid. (The value of this subsidy in 1988 was about R1.5 billion).

How the crisis will manifest itself is difficult to predict. At best, private care will become inaccessible to all but an even smaller elite - the young, healthy and wealthy. At worst, the private health care market may collapse completely. Either extreme would push many additional patients into the underfunded public sector.

The private sector and inappropriate priorities

People will "buy" health care when they are sick. There is little incentive to pay for preventive services when healthy. As a result, market forces tend to ensure that private care emphasises high technology curative care, and tends to neglect appropriate preventive and promotive services. These latter services do not generate enough

revenue to justify their provision by private sector entities in search of profit: left to itself, the private sector will inevitably focus on providing curative care and ignore preventive and promotive services.

The debate about health service options

The debate thus far:

Before February 2 1990 the battle lines in the health sector were clearly drawn. On the one hand, the government and most of the private health care establishment were promoting the privatisation of health care. On the other hand, "progressive" voices in the health sector, including anti-apartheid organisations and a wide range of academics, vigorously opposed privatisation and called for the building of an equitable and affordable National Health Service.

Today the distinctions are both less obvious and more complex. On the one hand, everyone professes to favour equitable and appropriate health care for all and no-one, least of all the government, publicly defends the notion of health care privatisation. On the other hand, the proponents of a National Health Service (NHS) face a very difficult question: what is a National Health Service, and how do we create it? More specifically, what do we do about the large and powerful private sector? The essential question is how a future government should intervene in the health sector so as to ensure increasing equity, without destroying the system it is trying to improve?

Three forms of state intervention are commonly mentioned. We discuss each in turn. Each obviously has a number of possible variations with different implications. It is not possible to discuss these subtleties here.

Option 1: Nationalise the private sector

This is the simplest option. It would involve nationalising the private hospitals, banning private practice and forcing all doctors into state employ. However, it is both practically and politically untenable as a course of action. Health personnel, particularly doctors would leave the health sector (and the country) in droves, and a "black market" in private care would soon emerge to undermine the public sector. If all the doctors did indeed stay on, this would practically double the number of doctors on the state's payroll - an impossible burden given that public health care is already badly underfunded.

At present nearly half of all the money spent on private health care comes out

of private pockets. If the private facilities were to be nationalised, that money would simply disappear. There would be no reason for people to pay for health care that was now provided by the state.

Thus nationalisation would greatly increase the state's liability to pay for care. There are also additional demands on state revenue that will be made by post-apartheid education and welfare services. Alternative funds could only be raised through the application of higher taxes, a move that would hardly be popular.

Quite apart from these arguments it is likely that the state would face a sustained and powerful campaign against nationalisation from both the providers and users of private health care. It is unlikely that any future government would seriously contemplate this option.

Option 2: Keep public and private sector separate

There is a school of thought which argues that the post-apartheid state should concentrate on strengthening the public sector, and transforming it into an egalitarian and high quality service open to all. The private sector, so this school of thought goes, should be left alone to provide private care to those who want, and can afford, to make use of it. The sting in the tail of this approach is that the private sector should be substantially reduced in size by a series of measures aiming, firstly, to make those

Strengthening the public sector will make health care more accessible to more people. Photo: Medico Health Project

who use private care pay the full cost, and secondly, to control some aspects of private sector behaviour.

Suggested measures include:

· Doing away with any tax rebate for employer contributions to medical aid.

· Making the private sector pay the full costs of training professionals who end up working in the private sector.

· Instituting a system of licensing for private hospitals, private practices, and the use of new technology.

In this way, it is argued, the private sector can be made less attractive and more expensive thus substantially reducing its size, its influence and its ability to undermine the public sector. The public and private sectors would be kept rigidly apart.

Critics of this course of action raise a number of problems. In particular, they suggest, it underestimates the ability of the private sector to adapt to new circumstances. In fact, they argue that it would leave in place a large and robust private sector, operating largely outside of national goals and priorities. This private sector would continue to consume a disproportionate share of resources, including doctors, entrench the two tier system of health care, and indeed continue to undermine the state's ability to develop an effective public health service.

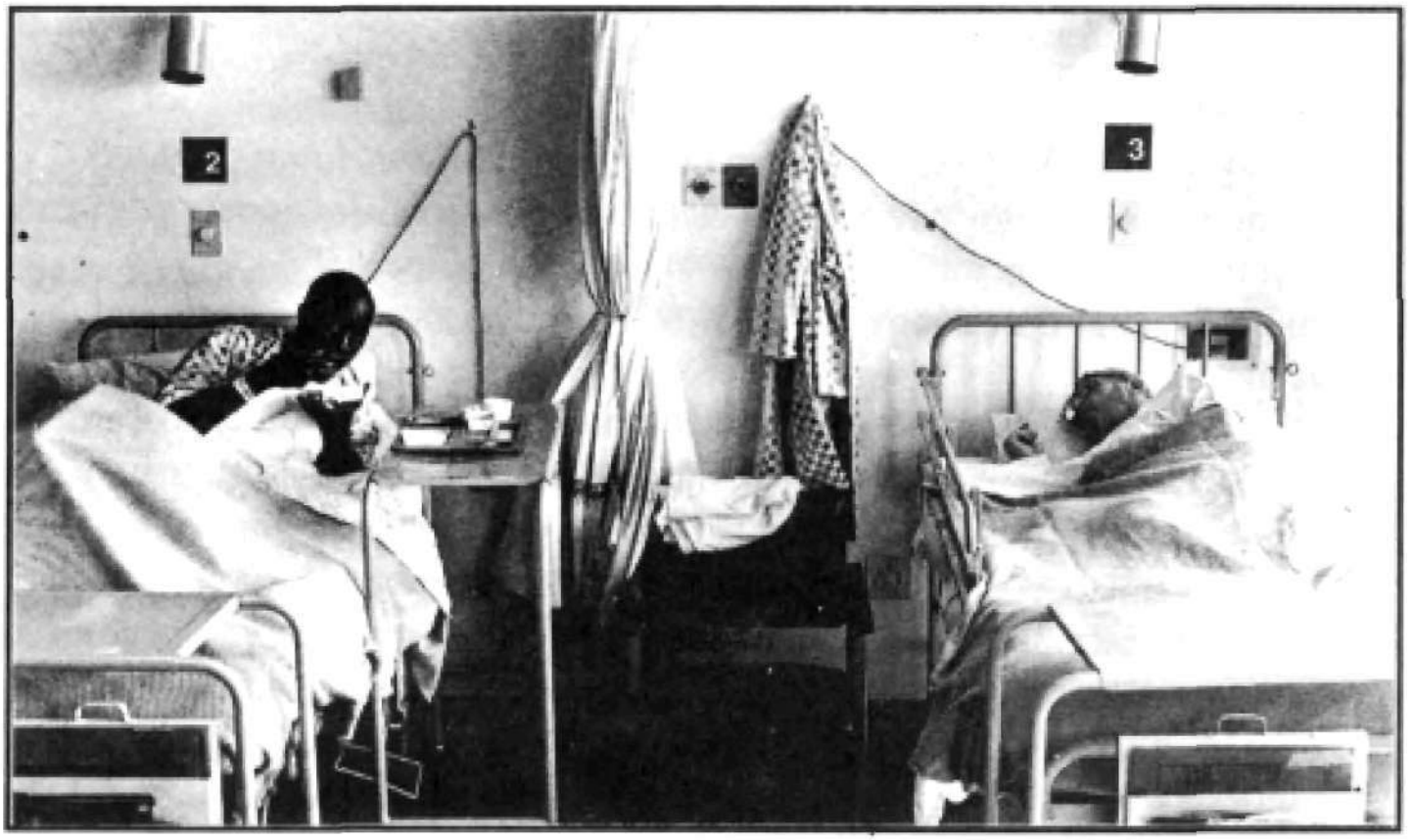
This proposed course of action would potentially release some additional funds to the public sector (the current tax rebate on medical aid contributions) but it would not provide sufficient funds to allow the rapid development of the public sector.

Option 3: Centralise financing for public and private providers

This option seeks to draw the private sector into a national system of health care provision. The proposed mechanism is the establishment of a national health insurance system in which current medical aid contributions are replaced by a compulsory health insurance contribution for all those in formal employment.

The national health insurance system would bring public and private finances for health care into a single fund controlled by the health authorities. The money would then be used to pay for a package of health services for all citizens, provided by either private or public sector providers.

The national health authority would be involved in the development, and enforcement, of norms governing the private sector. Such norms would include, for example, methods of practise and payment that reduce inefficiency. Also, the private sector would be obliged to participate in the training of health personnel, thereby contributing to the national pool. This amalgamation of resources would create a powerful single purchaser of health care which would act on behalf of all citizens in the country. The health authorities would ensure cost effective care by purchasing medicines cheaply, negotiating appropriate methods of payment with private providers and only paying for appropriate tests and procedures.



National Health Insurance could guarentee adequate access to health for all.
Photo: Medico Health Project

Such a system would guarantee all citizens access to a uniform range of essential health care that would be free, or nearly free, at the point of use. (Health care, over and above what is defined as essential, could be purchased by those who could afford it.) National Health Insurance, as a sum earmarked specifically for health care, tends to be more acceptable to people than an ordinary tax increment.

Such a mechanism, which has been implemented in many countries, including Canada and Australia, would leave in place many of the aspects of the private sector that are attractive to both providers and users of the health service. At the same time it would create a real possibility for the state, over time, to redistribute resources towards underserved areas, to create incentives for people to use the public sector, and to attract private doctors and nurses back into the public sector.

The major criticism of this option is that, by paying for everyone's use of the private sector, it would dramatically expand private health care, without modifying at all the cost escalating behaviour of the private sector. The effect would be to create an enormous drain on the central pool of funds. This real danger emphasises the need to define, and cost, very carefully the package of care that would be paid for by the national insurance fund. It also points to the need to negotiate in advance with private providers over methods of payment, procedures and cost saving possibilities.

Conclusion

Like so much else about South Africa today, the future of health care will have to be negotiated. What is clear is that the present structure is detrimental to the goals now espoused by all parties in the health sector.

To the extent that the needed fundamental changes can be achieved with a broad consensus, this would be a good thing, and should be the aim of negotiations.

It is our opinion that nationalising the private sector would make that consensus impossible, and that maintaining the private sector as a separate and elitist service would make it impossible to meet the social goals of the new South Africa.

A National Health Insurance system may provide precisely the correct mix of state guidance and private initiative and choice.

This article was jointly written by members of the Centre for Health Policy