

Comments on the Harvard Team's *Improving Hong Kong's Health Care system: Why and For Whom?*

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Public health expenditures continue to grow faster than GDP. The growth of these expenditures is not sustainable and health care financing needs to be revamped. Moreover, how to finance health care services is only part of the problem. The efficient provision of health care (what, how much, at what cost) is at least equally important.

On financing health care services:

- Most Hong Kong citizens may not feel the need to overhaul the health care financing system. They may not realize that the services they currently receive free of charge or at a small fee are indeed heavily subsidized by the government. Or they do not see how the government's rising burden of providing these services in the future will be translated into higher taxes or user fees for themselves or lead to a reduction in other social services. But the government must plan ahead in using its limited tax revenues to meet the most essential social needs.
- The Health Security Plan (HSP) advocated by the Harvard Team is the combination of (a) a scheme for risk pooling (i.e., the risk of being sick and the differential need for health care) and (b) an income redistribution scheme from those with high salaries to those with low or no salaries. Due to the second component, it will put undue burden on the middle class. Although it is recommended that employers will share some of the costs, economic analysis shows that the costs will ultimately be born by the employees.
- The suggestion that the projected increases in public health care spending be financed by a general salary tax increase has even more serious income redistribution problems than the HSP, given the narrow base of Hong Kong's salary tax. Moreover, unlike the HSP, money may not follow the patient. That will have adverse consequences for the efficient provision of health care services. The use of the general tax revenues to finance health care services will likely be vulnerable to political interests and bureaucratic expediencies.

- User fees for publicly provided medical services should be brought closer to their costs. In addition to paying for the direct costs, raising user fees helps lower public health expenditures in two ways. First, it will curtail the consumption and abuse of publicly funded medical services. Second, it will increase self-insurance on the part of the general public and reduce excessive risk-taking behaviors, thereby lowering the demand for health care.
- While raising user fees will promote responsibility among health care users, it will fall hard on those unlucky ones who have to consume health care more than the average. A general insurance scheme will alleviate the problems because the risk pooling mechanism essentially spreads the health risks among the entire population.
- Risk pooling provides a social benefit. However, a pure insurance system will likely result in the over-consumption of health care (the so-called “moral hazard” problem). Adding a co-payment system (co-insurance and deductible) will raise consumer responsibility, hence mitigating the over-consumption problems. Striking a right balance between risk pooling and consumer responsibility remains a challenging task.
- A health care insurance scheme need not involve income redistribution in disguise. Whether and how much income redistribution is to be made part of Hong Kong’s health care insurance scheme is mainly a political decision. But if the costs of the scheme fall too unevenly on some segments of society, resistance by these segments may result in no scheme at all, resulting in greater though delayed costs to society as a whole.

On efficient provision of health care services:

- Given the current level of public health expenditures, the quality and quantity of health care services as well as the efficiency of the health care system can be improved.
- The Harvard Team rightly points out the major problems of the existing health care system. The compartmentalized health care system wastes valuable resources and fails to provide patients with the medical services commensurate with the resources expended and the information that they need to ascertain the quality of the services and to make informed choices about service providers.
- A common theme of health system reform in other parts of the world is to enhance competition. More competition will benefit consumers.
- For competition to work in any industry, two key elements must be present. First, there are no cartels or implicit collusive agreements among the producers to manipulate the price of the product. Second, consumers have sovereignty over the choice of producers.

- In the health care system, consumer sovereignty can be enhanced if the following conditions are satisfied. (1) Money follows the patient. (2) The fee structure of medical services and medication is transparent and free of price fixing by the producers (collusive or legally sanctioned). (3) The information about the diagnosis of the ailment and the medication dispensed is properly conveyed to the patient. (4) The government offers adequate public health education. (5) There exists an independent, professional, and authoritative agency to handle complaints against health providers.
- There should be a rating system to inform consumers of the quality of primary-care doctors. The rating will provide important information for consumers to choose their doctors. Similarly, specialists and hospitals should also be rated.
- Public hospitals should not compete with private hospitals in the provision of high-end medical services that require expensive technologies. There should be room for private hospitals to develop those services in the market.

On health policy research:

- An Institute for Health Policy and Economics should be established to collect health related data, to measure the performance of the health care system, and to conduct scientific research on health policy and economics.