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Reform of the health system
Contradictions in an ambitious and participatory project

Analysis by Camille bondois based on:
- “The process of formulating health system reform needs to be immediately remedied”, editorial in Zhongguo Xinwen Zhoukan (China Newsweek), 23 October 2008.

On 14 October 2008, The National Development and Reform Commission (NDRC) published on its website initial plans for reforming China’s healthcare system and invited suggestions from the public. This reform project, in preparation for the last 10 years, has been keenly awaited by the public and the stakes are high. Until the 1980s, the medical sector was under full state control, but since 1992 the government has largely withdrawn, leaving the field open to market mechanisms and the profit motive.

This policy has led to serious interruption and growing disparities in access to healthcare. Patients have to bear 52 per cent of their medical expenses, greatly reducing their savings. Meanwhile, 400 million people have no medical coverage at all. Recent years have seen an increase in the number of people who have died because they lacked the means to pay for treatment. Disaffection is increasing in a population already hard hit by the rising cost of treatments and drugs and abusive practices in medical establishments. As hospitals and clinics are compelled to fund themselves, they increasingly resort to overcharging or over-prescribing drugs. In fact, an investigation by the National Bureau of Statistics in 2007 revealed that medical expenses were among the main “destabilising” factors in society. Reform of the health system is thus essential, not only to free up funds and stimulate domestic consumption but also to ensure social stability.

Even so, when it invited public discussion over the reform project, the inter-ministerial commission may not have fully anticipated the massive response: “We don’t understand.” In a two-part feature, China Newsweek took a sceptical view of a reform project that removes the state from the heart of the health system, and of the singular call for public input. The magazine pointed out inconsistencies in both form and content that made the project difficult for the public to understand. At the same time the magazine asked if the government’s strong interest suggested a return to a planned economy model in this sector, and more to the point, if it would lead to real solutions.

China Newsweek journalist Yang Zhongxu noted that work on the reform project was initially restricted to the ministries of health, social security, and finance, as well as the NDRC. Faced with a lack of consensus on the joint project, the government invited the World Bank, the World Health Organisation, McKinsey & Co., and three Chinese universities (Beida, Fudan, and Tsinghua) to submit proposals, which were integrated into the project before each ministry reviewed the parts of the project for which it was responsible.

Yang observes that as a result, the reform project is actually a stack of different plans reflecting the interests of each sec-

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The Ministry of Human Resources and Social Security was in charge of universal medical insurance (launched in 2007), and the Ministry of Health was concerned with the government monopoly over the purchase and sale of drugs, the creation of separate accounting for hospital revenue and expenditures, and the strengthening of community health centres. Yang said the lack of coordination led to much confusion, mainly due to the coexistence of basic health insurance with a system that separated hospital revenue and expenditure.

As if in a final attempt to forge a consensus, the resulting plans were presented to the public for its input. However, as China Newsweek stressed, this process has not actually been helpful. Yang says the public’s incomprehension persists because of the project’s complexity and lack of information on its context. The authorities should have supplied guidelines clarifying not only the conditions surrounding the project’s development and the choices made by different sectors, but also the rules and conditions governing public debate. The lack of organisation and clear direction brings a real risk of an ultimately meaningless “democratic” consultation that only serves to raise public expectations to an unrealistic level while having no real impact on a political decision by the central authorities.

Yang highlighted the project’s incoherence and limits, noting various aspects of the project in which the government was to be the main actor. The main aspects of the reform are as follows:

- Establishing universal medical insurance by 2010;
- Designating three types of health establishments: State establishments, which will have a leading role; non-profit institutions, which will also play a key role; and privately-run establishments, seen as complementing the other arrangements;
- Government control of the price of basic drugs and treatments as well as the production and sale of generic drugs;
- Better allocation and distribution of health resources and personnel;
- Improving the medical system and quality of treatment in rural areas;
- Development of health-related activities through civil society initiatives.

Yang notes several problems with these goals. Firstly, the reform project tends toward restricting the role of private capital that could be a potential answer to funding problems. Divesting the sector of market forces would do little good: “Whether or not public sector health entities take the lead is not for the state to decide, but for the market.”

Moreover, rigid separation of hospital revenue and expenditure puts public establishments at the mercy of the health bureaus on which they depend, and makes it difficult to implement the principle of “separation of management and operation” of hospitals. This principle, Yang points out, militates against the government’s massive investment in building health centres and improving the conditions of health and treatment, especially in rural areas.

Finally, and this is perhaps the major problem, the government’s role in price-setting creates fertile ground for official corruption. There is thus a long way to go in resolving difficulties in access to medical care. Despite all this, as China Newsweek emphasises, the project contains essential elements for future reforms, especially the notion of universal health insurance, the development of a policy favouring social engagement in “unprofitable” medical activities, and the willingness to ensure professional mobility and to develop multiple-service options for health-related human resources.

Finally, the question remains whether public consultation will help the government find a balance between strict control and the dynamics of profitability without hurting patients’ interests.

* Translated by N. Jayaram
In 2006, the National People’s Congress amended the law on compulsory education with the aim of gradually extending free elementary education nationwide. An inquiry was launched in the same year by the National Audit Office (Guojia Shenjishu), the ministry level body in charge of overseeing public funds, to ensure implementation of education reforms.

After two years of investigation, the results of the inquiry were published in July 2008. The report underlined the progress made, but also noted serious problems: students are still being made to pay fees that are banned under the reforms, and funds allocated to ensure free education are routinely diverted to other areas.

The compulsory education law first passed in 1986 envisaged nine years of free and compulsory education, but no mechanism was put in place to ensure its realisation. Local governments felt compelled to collect fees, or to impose other kinds of charges on pupils’ families in order to evade the ban on fees.

The 2006 amendment was intended to close these loopholes. The new provisions renewed the prohibition on collecting fees from pupils’ families and provided new sources of income for schools. These income sources included an increase in funds to cover school expenses and the setting up of funds for construction and renovation of school buildings. However, these measures failed to produce the desired results. The National Audit Office’s inquiry in 54 counties (xian), mostly in western China, found a total of 163 million yuan (16.9 million euros) collected illegally, and diversion of an additional 115 million yuan (11.9 million euros). There were many reasons for this state of affairs.

A shortfall in teachers provides some explanation for the unforeseen consequences of the new law. In fact, schools in many remote areas have difficulty recruiting teachers, and in some subjects such as English, sports, or music, schools have been forced to engage teachers who lack certification from national education authorities (daikete jiaoshi). These teachers are not included in the schools’ official staff roll, and their pay cannot be drawn from the teacher remuneration allotted by the government. Lacking financial support from local government, the schools have to raise their own funds or draw on funds allocated for other purposes.

Another consequence of teacher shortfall is competition among localities to attract teachers. In prosperous urban areas, teachers receive subsidies and benefits over and above standard salaries: lodging, pensions, or health coverage. In order to retain teachers, rural areas are obliged to adopt the practices of urban areas, and the only way they can do this is by extracting funding from pupils’ families or using funds meant for other uses.

The inquiry came up with yet another explanation in the form of accumulated debts that strangle day-to-day management of education. Since the 1990s, as many areas have had to extend access to compulsory education while being restricted from raising fees, many schools incurred serious debts to cover building expenses and the purchase of equipment.

Finally, certain of the new provisions contributed to poor use of funds. On the one hand there has been a disparity between the reform provisions and their application at different administrative levels. For instance, responsibility for managing various funds has not yet been clearly set out, and as

1. Counties, situated below the rank of prefectures and provinces, are the third level of administrative division. In rural areas they may consist of hundreds of thousands of residents.
a result, schools receive the funds due to them only in part or after considerable delay. On the other hand, while transfers between administrative levels have been facilitated in recent years to meet the requirements of the numerous decrees and laws on compulsory education, implementation of good budgetary practices at the local administrative level remains a long-term process.

Caijing stresses the difficulties local administrations face. In 1994, a major tax reform was introduced to boost the central government’s fiscal oversight vis-à-vis the localities. In reorganising fiscal administration, the tax reform set firm limits on local autonomy in tax matters. Then in 2000, a second set of reforms was initiated to address the growing gap between urban and rural incomes, and to find a solution to rising social unrest in the countryside. That effort is still ongoing.

The so-called “tax-for-fees” (shuifeigai) reform consisted of reducing the charges that burdened peasants. Initially various taxes levied by villages were removed and replaced with an increase in the agriculture tax and a boost in transfers from the central government. Then the agriculture tax was gradually lowered until it was abolished altogether in 2006. This move toward uniformity had several consequences. Following the standardisation of agriculture taxes, villages lost their autonomy vis-à-vis counties, with many reduced to simple administrative extensions of the county. Moreover, villages and counties became more dependent on revenue transfers from higher-level administrations. Several studies show that during this transition phase, the increase in transfers did not always compensate for the loss of local government revenues.

While the reforms have lightened farmers’ burdens, they have also led to a steep decrease in the resources available to villages and counties. Local administrations are thus obliged to devise means of replacing lost revenue while conforming to increasingly complex revenue transfers among the different administrative levels. Caijing says education accounts for more than half of expenditure at the county level. The difficulties of local administrations in financing education merely reflect the overall state of local finances.

To remedy this situation, the central government has gradually increased the total amounts transferred. Apart from new financing resulting from revision of the compulsory education law, other funding sources were established in 2005 to subsidise the poorest pupils.

Under the funding labelled “two exemptions and one subvention” (liangmian yibu), impoverished students are exempt from fees and receive partial subsidies from the government. In December 2007, the government also decided to take over the debt of counties and villages. However, despite these initiatives, expenditure on education remains low compared with other developing countries, standing at a mere 3 percent of gross domestic product in 2006.

The timing of the Caijing article, while not explicitly stated, was probably inspired by the massive collapse of school buildings in the Sichuan earthquake of 12 May 2008. Local governments were accused of having colluded with property developers who neglected construction norms for buildings in the earthquake’s epicentre.

Translated by N. Jayaram

Glossary

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<tr>
<td>shouzhi liang tiao xian</td>
<td>收支兩條線</td>
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<td>guanban heyi</td>
<td>管辦合一</td>
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<td>daike jiaoshi</td>
<td>代課教師</td>
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<td>shuifeigai</td>
<td>稅費改</td>
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<td>liangmian yibu</td>
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