Private hospital development in health systems with a history of welfare provision:

some pertinent questions and observations for the consideration of policy-makers

Simon Barraclough

Many developing and middle-income nations, including a number in the Commonwealth, have embraced policies to encourage the development of for-profit private hospitals, some of which have been established with varying degrees of foreign capital and know-how. This policy shift often involves a transition from a system characterised by welfare provision to a plural one in which private for-profit hospitals offer services to those able to opt out of the public sector due to their ability to pay out of pocket or through private insurance. The following questions have been posed to assist policy-makers in considering both the potential benefits and costs of for-profit private hospital development.

Will private for-profit hospitals increase overall national expenditure on health care?

Despite claims about cost signals and the introduction of competition, private for-profit hospitals contribute to overall national health costs since, unless subject to price regulation, they have a vested interest in selling more products and services to their clientele. For example, in Malaysia, advertisements for heart checks for executives are commonly to be seen, even though such people have lower death rates than ordinary workers. Moreover, private hospitals are anxious to offer the latest branded pharmaceutical products and make use of modern diagnostic equipment. They also invariably pay higher wages, contributing to health care inflation.

Will private hospitals contribute to a positive image of a country?

Expatriates and tourists are likely to look with favour on the presence of a hospital operating according to international standards. Moreover, if there is private equity this suggests a vote of confidence in the investment climate for that country.

Will private hospitals contribute positively or negatively to the national balance of payments?

A foreign private hospital will expect to repatriate profits (and ultimately the capital) associated with its investment. Construction and outfitting will involve an outflow of funds. Continuing operations will involve the importation of goods and services, which will also represent an outflow of funds. At the same time, the initial investment, as well as expenditure by foreign patients, represent an inflow of foreign currency, while local patients no longer seeking treatment abroad will reduce outflows of funds.

How will the rights of private patients be safeguarded in private hospitals?

In certain instances exorbitant fees have been charged by private hospitals for emergency services. In rare cases injured people have been turned away from accident services for not being able to pay. In some countries there have been cases of patients not being told the full extent of the final bill before agreeing to treatment.

Various countries have tried different approaches to protecting patients' rights as consumers. These have included:

- Mandating a patient's charter in each hospital
- Requiring hospitals to be accredited before an operating licence can be granted
- Requiring the costs of all drugs, including generic versions, to be displayed in hospital pharmacies
- Requiring patients to be given a clearly worded statement of costs prior to a procedure
- Publishing surgical costs on a website to allow potential patients to 'shop around'.

How will private hospitals be regulated?

In the past, most developing countries had few or no private for-profit hospitals. Public hospitals were under government jurisdiction and regulation. There has therefore been a pressing need for regulation of institutions beyond civil service governance. Many jurisdictions have drafted and passed specific legislation for the private sector mandating essential standards for such things as buildings, staffing, equipment, reporting of health data, training of nurses and social role. A continuing problem for many jurisdictions is the implementation of regulatory legislation due to inadequate staffing and skills among enforcement agencies and, in some cases, lack of political will.

How will private hospitals be perceived by the general public?

In a system previously characterised by egalitarian values and a welfare ethos, private hospitals will invariably be seen as the preserve of those able to afford better care. There is also a risk that they will fuel resentment since their buildings, décor and food are often superior to the public sector. Moreover, they are usually able to offer faster treatment with less waiting time. If foreign patients are being welcomed, there is the added risk of a feeling that local people are being denied treatment so that foreigners can have priority. These factors may contribute, rightly or wrongly, to the common perception of a dual system in which the public sector is associated with poorer technology, less qualified staff and lengthy waiting times. There is the possibility that such perceptions might lead to a sense of grievance that will find expression in the political sphere as an electoral issue.

What will be the impact of private hospitals on the public sector workforce?

Given that there is a global shortage of health professionals, it is inevitable that a private hospital with greater financial resources and less of a bureaucratic cultural environment than the public sector will attract staff from the government service. Such a situation represents direct cross subsidy of the private sector by the government, since these health professionals have usually been trained at public expense. Some jurisdictions have responded to this challenge by requiring the private sector to contribute to the training of nurses and other health professionals. The loss of staff to the private sector has also prompted reforms in some public health systems, leading to the ‘corporatisation’ of hospitals, allowing them to remain in public ownership but outside the strictures of civil service pay and conditions and able to offer more competitive salaries. Some have also sanctioned private practice in public hospitals in a bid to attract and also retain medical specialists.

In some countries the growth of private hospitals has necessitated the opening of the health-care system to foreign staff in both the clinical and management fields. Where there is not reciprocal provision in the part of the country these staff come from, there can be local resentment. Policy-makers also have to give consideration to the licensing and visa arrangements for such foreign health workers and this may require negotiation with local professional associations.

Will private hospitals contribute to technology transfer and how will this be ensured?

In smaller states there is a danger that new for-profit hospitals with high technology will contribute little to strengthening the wider health-care system. It is important that policy-makers consider including provisions for sharing training in both technical and managerial areas in licensing agreements.

Should private hospitals be expected to perform a social role and how should this be ensured?

In order to placate criticisms of ‘two-tiered’ health care, and also in an attempt to ensure that private for-profit hospitals contribute to the welfare of the wider population, some jurisdictions have mandated a so-called ‘social role’ for commercial hospitals, requiring them to operate lower-cost wards for patients with limited means. In cases where such a role is not mandated, there has often been an expectation of a social role under the ‘corporate social responsibility’ ethos. In reality, many private hospital corporations have merely paid lip service to such a role and have not seen it as a realistic expectation since they are fundamentally commercial entities, unlike the charity-based hospitals that are found in most developing countries. Moreover, it is difficult for governments to monitor and enforce the social role.

Should private hospitals receive government subsidies?

Policy-makers need to take stock of the degree to which private for-profit hospitals are subsidised from the public purse and need to decide on the cost-effectiveness of such subsidies in terms of the public good. Subsidies may include ‘tax holidays’ of several years duration, tax concessions on profits, removal of purchase tax, reduced import duties on equipment and tax rebates on health insurance premiums and on the payments made by individual patients.

How will private hospital care be funded?

In some countries, public policy has ensured that portions of compulsory retirement savings may be used for care in private hospitals or that tax concessions are provided for private health insurance. Care needs to be taken that better-off patients are not receiving subsidies at the expense of those who have no choice but to seek public care.

Should the government invest public funds in private for-profit hospitals?

In order to foster the development of the private hospital sector, some governments have provided capital in the form of direct investment or have used retirement and state investment funds to invest in private hospital corporations. Such policies risk creating a perceived conflict of interest since the government must regulate a sector in which it has a commercial interest. Public funds are also re-directed to a sector that most of the population is unable to access due to the high cost of private care. A dual system is further reinforced. This may have political risks for governments.

Should private participation be in a separate, stand-alone hospital or should co-location of private specialist centres within a public hospital be encouraged?

Co-location of private facilities within a public hospital may contribute to greater efficiencies (e.g., use of capital-intensive equipment, economies of scale) and to the retention of specialists who are able to engage more easily in private practice while also being part of the public hospital. But such practices may also involve cross subsidies of the private sector and also visibly reinforce the existence of a two-tiered system.

What is the role of international agencies in private hospital development?

International financial and investment agencies encourage the development of the private hospital sector and have even provided limited capital in some cases. However, such advocacy needs to be judged in the context of the health systems and the needs of the wider population of particular states.

How can a ministry of health assert its role in policy development on private hospitals?

There is a danger that ministries of health will be sidelined as public policy is mainly concerned with the encouragement of investment in the private hospital sector. Some states have not adequately regulated the activities of private hospitals nor have such private services been taken into account in overall health system planning.

Will private hospitals have a symbiotic relationship with the public sector or isolate themselves?

Ideally, private hospitals should contribute positively to the overall health-care system, promoting competition in both quality and value for money and being part of the training of health professionals and research as well as sharing data. However, there is a risk that commercial hospitals will seek to maximise profit and will maintain a separate existence in which the imperative to maximise return on capital and commercial confidentiality take precedence, notwithstanding commitments to corporate social responsibility.

Dr Simon Barraclough is Associate Professor in the School of Public Health, La Trobe University, Australia, where he researches and teaches health policy.