

The Health Care Reform of Georgia influenced by Milton Friedman's ideas and The New Role of Health Care Financiers, Insurers, Providers, Controllers and Patient's Rights Supporters and Government to organize the managed competition in Health Care Market

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Abstract

Very Brave and also by huge optimistic backed Health Financing Reform, implemented into the Health Care System of Georgia, from 1st of September of 2007 can be entitled as “Privatization of Social Health Care”. Also the Georgian Health Care Reform is defined as very courageous and risky hence it has no analogues around the world. What are the basics of such new revolutionized system of Georgian Health and how new institutions must play their role in the system of Georgian Health Care? Having improved the country's image in the minds of main donors of Georgia the Ministry of Labor, Health and Social Affairs (MoLHSA) and the Government of country started the Health Care Reform Policy towards transformation and minimization the role of social insurance foundation (and State Medical Programs) as the financier of people (final receivers of money in the case of occurred risks and losses) in previous period and increased the role of Private Health Insurance Companies as main players in the health financing market of Georgia. Private Insurance Companies sometimes entitled as “wheels of Georgian Health Care System” and privatized Health Facilities – Hospitals, Policlinics, licensed health Practitioners as soon as Health Ombudsmen offices and Patients are in real situation main actors of health Care Market. They must shape the market and satisfy patients, but each part of this market lacks special knowledge and experiences and they must be empowered by research based strategies and tactics. Fulbright Professor Kakhaber Djakeli after returning to Georgia from Yale University, the School of public Health has already participated in Georgian Health Care Reform, writing the main concept of Health Care Financing at the Ministry of Labor, Health and Social Affairs (MoLHSA) intends to continue during this project, to research special aspects of markets of Financiers, Insurers, Providers, Controllers and Patient's Rights Supporters with the target to provide high knowledge to microeconomic aspects of Health Care.

Keywords: *Global health; private sector; development; developing countries; science and technology; innovation systems; local health needs; Georgia; Health Maintenance Organization; Managed Care; Insurance Companies; Health Reform Strategy; Health Financing Strategy and tactics; ombudsmen of health care; healthcare market; rules of regulation.*

Introduction

There is a great disparity in global health in the world today. Every year millions of people and especially children from developing world die from diseases that are preventable. The average expected lifespan in developed countries is approaching 80 years and more, while in developing countries it is less than 40 years. The great disparity among countries in the health are created by differences among national approaches or ability of countries to establish well organized and optimal health care system combining both, new international health care strategies, tactics, technologies, techniques and domestic resources. Georgia one of the post soviet developing countries has its hard way of Health Care System Reforming started in 1995 when



the country met a lot of perils after Soviet Union was finally destroyed in 1991 and New Independent States were existed without clear concepts and even awareness what to do to old and new causes of loss exposure. The first Georgian Health Care Reform as such reforms in other developing countries had the target to change what is changeable without clear analyses of macroeconomic of country and predictions of its development. The first Health Care reform built the social insurance Company with the target to manage main risks using State Medical Programs financed by State Budget. Also this reform tried to decentralize very centralized health care system of Georgia, but this target was achieved partly. The Georgian Health Care Financing after reforming had the following form (The figure N 1)

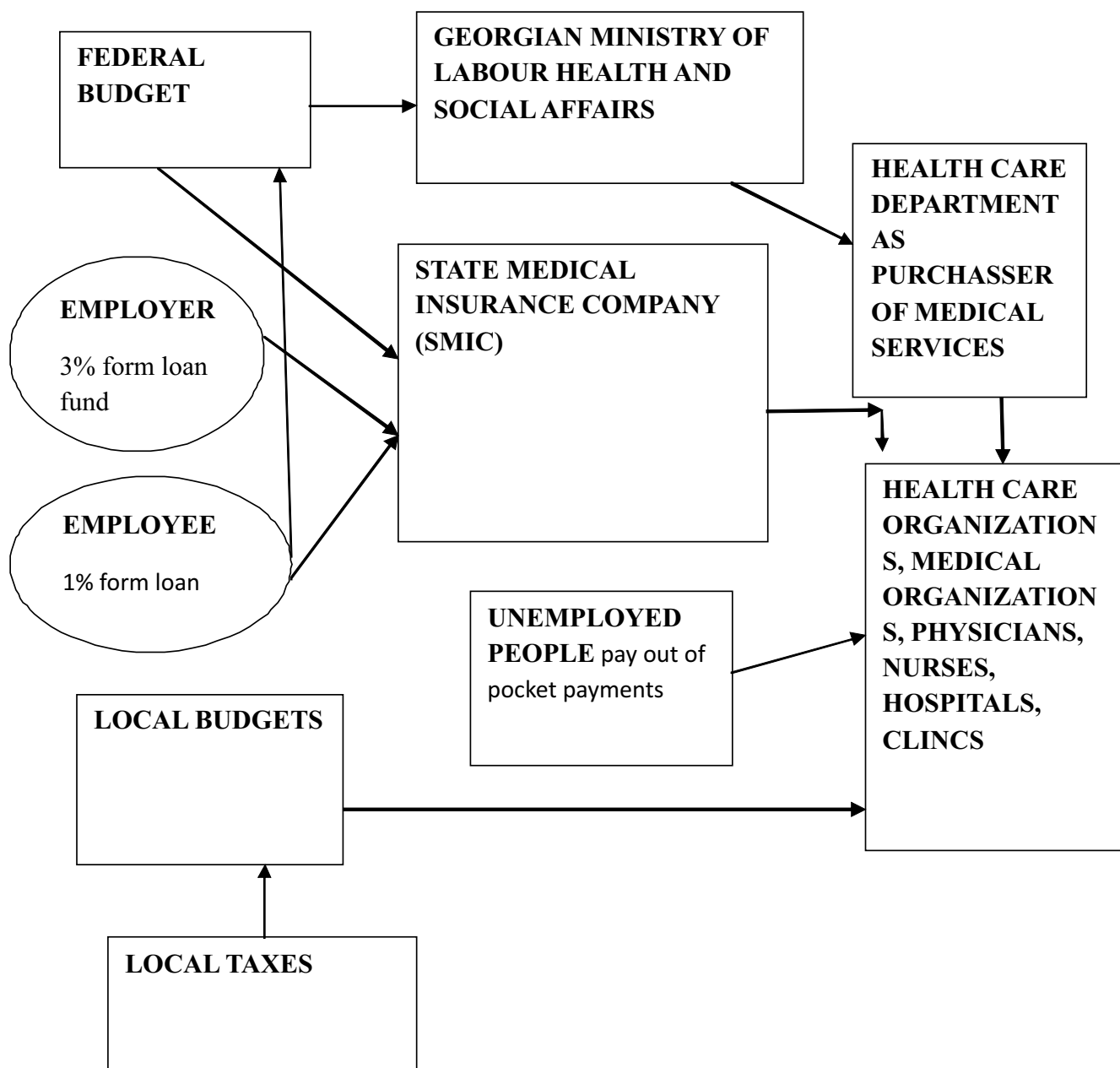


Figure 1: The Georgian health care financing after reform of 1995

Explanation to the figure 1: 1) revenues of the central Budget; 2) Central budget funds the Ministry of Labor, Health and Social Affairs (MoLHSA); 3) MoLHSA funds the purchaser of health care services – the Health care Department; 4) Health Care department contracts and funds health care organizations (; 5) People pay out of pocket; 6) Employee and employer pay social taxes (3+1%) to the Central Budget; 7) The Central Budget funds

the State medical insurance company SMIC; 8) SMIC contracts and funds Hospitals and clinics; 9) Local taxes directed to the local budgets. 10) Local budgets fund some.

The Health Reform in 1995 tried to shift the reimbursement of physicians on the fee-for-service base but it was made with some mistakes and misunderstandings. State Medical Programs being priced with low prices could not be effective; hence it supported only shadow market in health. A set of rates called as the “internal Standards” involved unreal low fees and prices for already expensive medical treatments. Increasing inflation of health care prices made these “internal standards” very unpopular by physicians, hence they could not cover the real expenses of health care organizations. That's why almost all Hospitals, Policlinics, physicians and nurses had gone to the shadow market prices.

Despite the failure of the first Health Care Reform it has some advantages defined below:

Advantages of first Health Care Reform	Disadvantages of first Health Care Reform
<p>a) Georgian health reformers tried to see importance of the public health deciding to develop the public health medicine.</p> <p>b) Reformers tried to establish the social health insurance model for financing the health needs of population creating the basic benefit package and tried to set up the internal standards;</p> <p>c) Reformers tried to make health care system more optimal, meaning that the great number of physicians and nurses, also beds in Hospitals could not be in need.</p> <p>d) Reformers tried to start the privatization of Health Care facilities.</p>	<p>a) The reform crew had not understood the meaning of macroeconomic indicators of country;</p> <p>b) The reform could not establish clear system of decision making.</p> <p>c) After the reform the shadow health care market increased and it was more than 80% of whole health care market;</p> <p>d) Post reform health indicators showing worsening direction and dynamic;</p> <p>e) The reformers could not introduce the quality management in health industry;</p> <p>f) The MoLSHA and SMIC (State Medical Insurance Company) were not able to support the image of Internal Standards in the minds of hospital managers and Physicians, hence the real wages of physicians according this standards decreased tragically.</p> <p>g) The reform could not create institutions able to fight corruption;</p> <p>h) The reform even encouraged the corruption, increasing the Black or Shadow Health Care Market;</p>

Health Care Reform backed by Milton Friedman's Economy

Ideological basic for the Health Care Reforming

It is true fact that Georgian Health Care Reform thinking, started in 2005-2006 was influenced by Prime Minister and economic think tank of Georgian government – Mr. Kakha Bendukidze, who was in the same time key idea designer. The book of Milton Friedman – Capitalism and freedom red by Mr. Bendukidze influenced him so greatly that he with his full power began to offer to government Friedman's ideas for Health Care Financing Reform (author's comment: Bendukidze liked the books of Friedman so much that they became his daily reading literature).

The Milton Friedman's book – Capitalism and freedom gives several realistic places in which a market can and should replace government's regulation. Between different places, Friedman advocates the system of



vouchers for school education and also ending the licensing for doctors.

It can surprise readers but Milton Friedman's ideas about vouchers for school education influenced Georgian Reformers not only in education but also in health care.

To understand the logic flow of Georgian reformers into Health Care it must be emphasized that before Health Care reforming, Georgian Educational Reform involving special vouchers financed by the state, for students who successfully passed the state examinations, was successfully implemented. 5

People who need high education and have good basics receive voucher from the state and it is a key point of Educational Reform. According this government decided to implement the same approach into health and give the voucher to those who cannot afford the payment for the health care but need it very much. This group was entitled as social vulnerable population of Georgia, previously identified by social agency and established special indicators or features for its definition. In Georgia the number of the population below poverty line reaches 33.6%. Out of this only 654 936 persons were registered with “The Database of Socially Vulnerable Families”. Therefore, it was also imperative to improve the registering of “financially insecure” groups and re-examine the criteria for rating.

Targets and Goals and instruments of the reform

The main goal for healthcare financing reform was to ensure the financial accessibility to the medical services for the population. This means to create a system of effective payment for medical service and products that will replace “out of pocket” payment tradition or other types of payments. The main course of the reform was to direct state resources towards satisfaction of health needs for socially vulnerable people.

To accomplish these goals government established the following Instruments and strategies for healthcare financing:

A) Insurance voucher – in order to guarantee accessibility of health insurance and to ensure accessibility to medical service for socially vulnerable people, government produces an insurance voucher. The Voucher is a financial instrument issued by the government for citizens and their families to purchase medical insurance. The beneficiary can choose the provider of medical insurance among Georgian private insurance companies. Having exchanged the insurance voucher against the health insurance policy of insurance company – person can be involved in primary, secondary and tertiary health care inside Georgia.

b) Medical voucher – is an exchange financial instrument issued for citizens. It can be in a monetary, as well as in any other form designed to finance medical service.

During Reforming Government has established Health Purchasing Agency to cover the costs of vouchers after insurance vouchers being collected in the insurance companies. Currently government according this scheme is the premium payer for its citizens from vulnerable group of population.

What rest of society do according to this reform?

The secondary and the tertiary health care services for the category of population have not recognized as vulnerable part of population can be available by private insurance or out of pocket payments in the case of loose exposure. The state intended to ensure universal accessibility to the first level (basic ambulatory care) service for the whole population. This included (a) medical, ambulatory as well as home based consultation for preventive measures; (b) basic functional-diagnostic and laboratory researches that do not require complex diagnostic-laboratory equipments; (c) few invasive procedures; (d) emergency aid; (e) strategies directed towards public health, e.g. immunization.

Public health was a prerogative created by the state. At the same time it is associated with state investment in public health. Public health with its preventive and specific character does not rely on distribution of risks, advance insurance schemes and therefore will be implemented and managed according to a

program. Costs for exceptionally expensive healthcare, especially dialysis and cardiovascular treatment, will come under state program that will reimburse this type of healthcare.

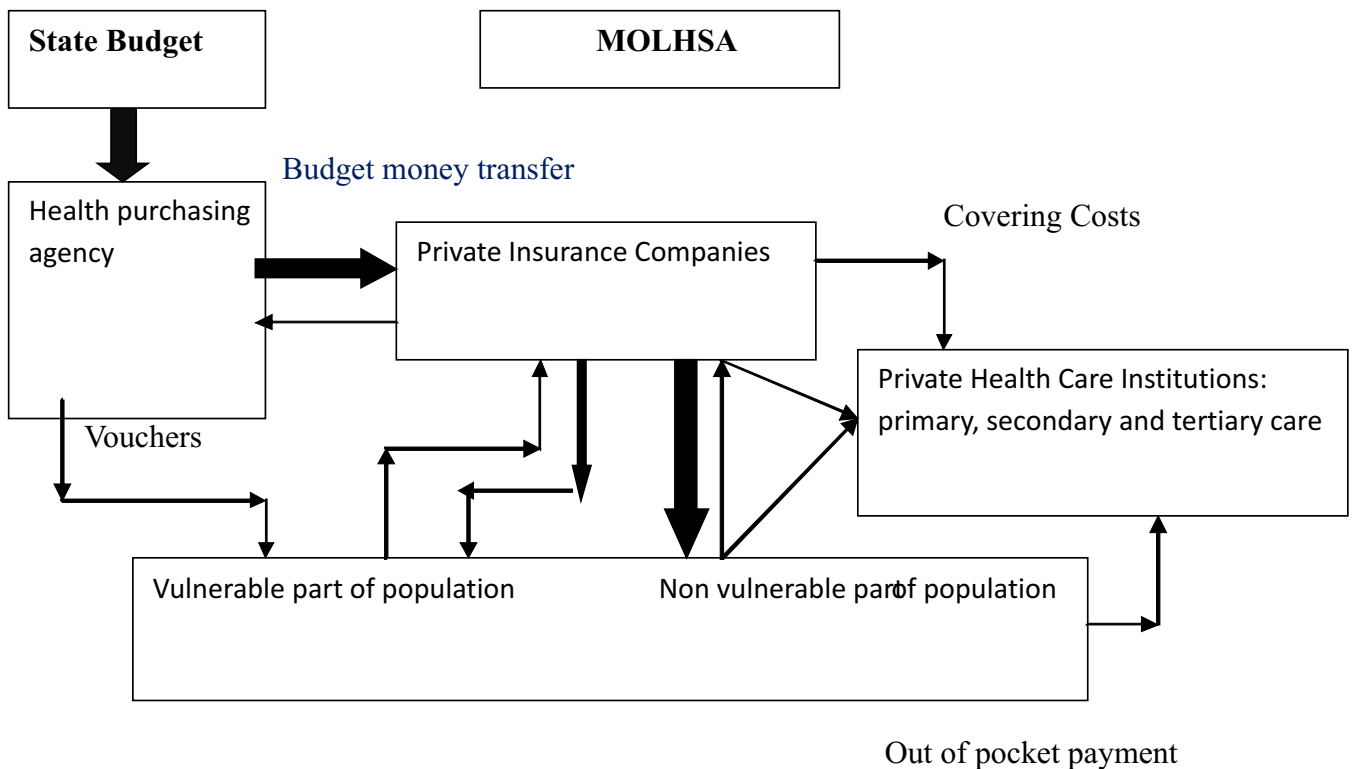


Figure 2: The new model of Health Care financing

The Figure 2 explanation:

- a) Health Purchasing Agency spreads the insurance vouchers among vulnerable population;
- b) Insurance companies on the base of competition attract voucher holders, receive vouchers and give them health insurance policies (voucher holder turns into policyholder) and send to health purchasing agency their invoices to receive the money according number already collected vouchers;
- c) The budget money transfer exists when Health Purchasing Agency receives vouchers from a private insurance company and pays;
- d) Non vulnerable part of population pays out of pocket money or they are private insured by their selves or by their employee;

Criticism of targets of reform and reform technique to achieve targets

Criticism of targets and ideological basics for reforming

First of all ideological basics and targets of the health care reform must be studied through some skepticism and criticism. The Milton Friedman's great book – Capitalism and Freedom is written from the perspective of the United States and was published after world War and nearest time Cold War began. In his book Mr. Friedman supports limited and dispersed government power used in the economy. Promoting economic freedom as the basic for democracy Milton Friedman was suggesting enforcing law and property rights as key factors for economic development. Vouchers in this great Private Insurance Companies State Budget Health purchasing agency

Vulnerable part of population Non vulnerable part of population Private Health Care Institutions: primary, secondary and tertiary care MOLHSA 7 work of 20th century are suggested only for Educational

systems and not for health financing. The medicine is only mentioned during Milton Friedman's critic of Medical Cartels and negative practice of Monopoly in Health Care Markets. According information above, key arguments to criticize Voucher approach into Health Care Financing is the fact that Great Milton Friedman never suggested use of vouchers for financing the health care needs of vulnerable population of country transforming its health economy from Semashko model to market oriented health and having great lack of insurance culture and experienced into health insurance companies, being able to play the role of main managers of health facilities.

Criticism of reform's concept, techniques, strategies and tactics

The main objective of this reform was to satisfy the health related needs of vulnerable population. According the character of this task it is possible to say that this reform was transformation of the part of social politics of Georgia. The realistic picture of the reform shows that reformers, making this transformation were intending to gain success in empirical social policy. It is clear that second health care reform was starting in the phase of total privatization of Georgian health care facilities being at government's hands. Old hospitals and polyclinics frequently were very interesting investing objectives by the various types of investors. If we speak about investors it must be commented that most of them were constructing or developing companies pursuing only place of health care organizations. Among investors intending to buy health care facilities were pharmacy companies and insurers too. After the great wave of total privatization health care organizations became new owners, mostly constructors but also pharmacies and insurers. If insurer owns hospitals that means that managed care model has meaningful ground to be developed.

Also this model might to have some proponents among construction companies and pharmacies but government steel have not realized the fact that special legislation and the law about health maintenance organizations was in the need. It was not clear which state medical programs must remain in future and which must be stopped. Despite some suggestions from Georgian Health Economists – governments had forced the reform period rapidly and started its main phase – printing the health vouchers, spreading and managing them quickly.

The first pilot project started in west Georgia – Imereti has shown first problems of the reform. Private Insurance Companies of Georgia started a dirty competition for the vouchers of vulnerable population. Sometimes insurance companies having received the voucher don't want to be responsible for the insured persons. It might be expected that insurance companies in Georgia did not specialized in health insurance would have great problems. The Georgian Insurance companies intending to be the wheels of health care reform can fail in the beginning period of reform. The great sum of health care premiums what must be paid by the government to private health insurance companies can be also lost in the financial labyrinth without any health related outputs for 1.200.000 vulnerable Georgians and also for the country.

To answer the question – were thing done in the right way we must analyze something similar health care reform, being done in any other countries.

Criticism of Government tactics and Insurance Corporations

In 2011 Georgian Government used its “weaponry” to press insurance corporations. The police actions with hidden cameras and arrest of middle level insurance managers showed in Georgian TV was made. According government information some insurance companies tried to hold money received from budget for vulnerable population as an insurance premium not to cover medical expenses of their clients. From one side Georgian government continues to control private insurance corporations from another side Georgian insurance corporations are facing big problems, hence they are losing their image what can affect all insurance market in Georgia.

What lacks Georgian post reform health care System?

What lacks post reform health care system?

a) Georgian government having decided to direct all health budgets to the private insurers intends to accomplish social needs. This can have very dramatic end if private insurers will not realize their new role of social agents. The function of the Government is focusing on payment of health insurance premiums to insurers for vulnerable population. It is still not clear how the Georgian government intends to encourage insurance companies to support the rights of citizens at the insurance company's boxes. ⁸ Also government and MoLHSA lack calculation of fair insurance prices. Georgian private insurance companies in post reform period are not receiving the risk adjusted health premiums. The flat premium was calculated without analyzing of health related risks of vulnerable population. Insurance companies will receive the fixed premiums from government purchasing agency. This one-side pricing without bargaining can encourage private insurers go into business only for rapid profits gained through dirty tricks.

b) The function of insurance companies – Georgian insurance companies according the reform proposals are not encouraging enough to manage the health facilities. Their function is also very similar. How they can compete and what can be main object of competition is not clear. Without the deep involvement of insurance companies into quality control and satisfaction of healthcare needs of their consumers the insurance companies will lose their consumers and it can be begin of the failure of the second health reform in Georgia.

What kinds of approaches are needed?

The Georgian health care system has been reforming already second time during the short period needs concretization of functions of main players. The system regulation only by the government of Georgia is impossible before all institutions accomplish their functional goals, targets and objectives. The Georgian Health Care system model built on the competing private organizations – insurance companies, hospitals and independent practitioners must establish frame and detail strategies for system development. The functions of main players in Health Care built by second Georgian Health care Reform can be classified as following:

Government Function of Georgia - It must be said, that Georgian government has to manage the competition among health care market players consisted by Insurance companies competing for clients and also health care organizations trying are attractive for B2C and B2B relations. If it is clear that market must be manageable but without losing the entrepreneurial soul of private companies competing for profit and in general bringing great benefit, it must be also clear that main goal of Health Policy Makers must be the implementation of the principles of managed competition into health. In the managed competition model government must require from insurance companies to be more sustainable to have long interest benefiting clients. Also government has to find ways to encourages health care organizations to build quality standards, to have good prices, to organize (if it is needed) managed care organizations (what distinguishes managed care from insurance companies is that in the managed care insurance group owns hospitals and employs physicians. Another model of managed care is united medical collectives -POS) to compete not for prices but for better quality for customer.

The principle that encourages health insurance companies and also health providers to compete for quality and not for prices must be installed into Georgian Health Care System.

The government also must regulate private insurers to prevent them risk rating premiums in order to avoid the results of unaffordable premiums for high risk individuals. Substituting the roles of the major manager and major sponsor the government has to develop and encourage the insurability of all vulnerable citizens against health related risks on the base of cost-effectiveness of insurers plus health care organizations. Without high involvement of government and its managerial activities this system could be only the wild market without any civil faces.



The function of Georgian Insurance companies- Georgian insurance companies or insurers must compete on the basis of quality, low costs and appropriate care rather than to seek low risks. In the managed competition model - insurers have also other functions. They must substitute functions of insurance business with the health management of patients and physicians and the purchasing of health services. Income group members can make a choice among Georgian insurance companies offering health policies and special managed care organizations also offering the same service.

Policy recommendations

a) Georgian Parliament and Ministry of Labor, Health and Social Affairs with the insurance companies must develop special laws about Health Maintenance Organizations in different models and rethink methods how to encourage insurance companies to establish managed care organizations and be more involved into health care results and be very responsible for health conditions of patients;

b) Insurance Companies must be encouraged to have regular risk related studies in the scientific base and offer to government their process – risk adjusted health insurance premiums, to be sustainable developing organizations;

c) Government must create the institute of Health ombudsmen and on the base of freedom and independence of this institution create financing of health ombudsmen, protecting the right of patients in different levels and places.

d) Private health care organizations and private health practitioners also must be encouraged to establish their association able to support their claims and bargain for their name against other types of business or government bodies;

e) Patients, voucher holders and health policies holders must be trained very well about solutions from insurance services, information what to do in the case of illness or problem, they must be aware about the valuation of insurance police/service before choosing their insurance company, also insurers and providers of health care must be accessible according some standards created by whole concept of managed competition;

f) The managed competition concept must be developed by health economists and insurers with close relation to health and social committee of parliament and international donor organizations. This concept must combine reform idea and its libertarian basics to methodology of management what is necessary, making achievable best targets of best ideas and avoiding the failures.

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