The Development of Private-owned Hospitals in China: can health policies be transferred from other countries to China?

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Abstract:

During the “Reform and Opening to the Outside” era over the past decades, a significant issue is that Chinese people have been suffering from expensive medical service. How to resolve this problem has been a concern from all the corners of the society. We believe that the breaking through point is to develop and strengthen the private-owned hospitals which could expand the medical resources and also break the monopoly of public-owned hospitals. To resolve the problem of “It is expensive and difficulty to go to a hospital”, It is necessary to form a buyer’s market in the medical service. We pay attention to the existing plight and development strategies of private-owned hospitals. Using empirical study, the authors examines ten private-owned hospitals in Chengdu, capital city of Sichuan province in China. With the first hand multi-case study data, and reference to the relevant experiences of the UK, USA, Germany and Singapore, the author propose a number of policy recommendations to ensure an affordable medical service and to improve the public health of Chinese people.

PART ONE   INTRODUCTION

In the current Chinese medical service system, medical organizations are classified as five categories. They are owned by State, collective, private, joint and others respectively. Private hospital belongs to the private medical organization that has achieved the status of hospital. In 2003, there are 136198 private medical organizations, accounting for the 46.75% of the total medical organizations (Ministry of Health, 2004). In the same year, there are more than 3000 private owned hospital, accounting for 16.06% of total hospitals (Xiao, 2004).

After reform and opening to the outside in the 1978, China permitted non-state owned private medical practice in 1980, and the first private-owned hospital appeared in 1984 in Guangzhou (Liu, 2005). Until September of 2001 whenever the country exercised opening the medical market and encouraging medical services by social entities, private owned hospitals mushroomed all over the country.

Private-owned hospital is the product of Chinese market economy and it is also the significant accomplishment of China’s medical health system reform. The experience shows that the private-owned hospital has played very positive roles in accelerating the establishment of the medial service system that matches the socialist market economy. The private-owned hospital also demonstrates its utility in strengthening and rational
distribute urban and rural medical health resources. Especially, the private-owned
hospital has met the demands of medical health needs of various levels of the public.
Nevertheless, as any other new-born things, the development of the private-owned
hospital is not smooth. Its development has been constrained by many factors and even
its existence has been very difficulty. The private-owned hospital has encountered a
number of problems. Firstly, report of mass media is not subject to objective and
equality and thus the private-owned hospital is living in an unfavorable opinion
environment. Secondly, public policy toward private-owned hospital is unfair. The
country levies tax from private hospital and also declines the private hospital to join the
medical insurance system. On the other hand, the state-owned hospital is free from tax
and is ensured to join the medical insurance system. These differentiating policies
discriminated the development of private-owned hospital. Thirdly, the running
environment of private-owned hospital is poor. The society lacks confidence in private-
owned hospital and some government agencies is unfair in executing laws such replacing
laws with charges. Fourthly, some alluring and false advertisements have made the
private hospital facing the trust crisis. Fifth, the private-owned hospital lacks talented
doctors and medical personnel. The above mentioned concerns have made private-owned
hospital live in plight.

In the meantime, Chinese people have prominent problem of difficulty and expensive to
see a doctor over the last decades. Many people cannot afford to go to hospital become a
“hot” topic of the country. Though there are a number of reasons for this phenomenon,
the most fundamental causes are the shortage of overall medical resources of the society,
unequal distribution of the medical resources as well as the monopoly of the State-owned
hospital. Thus, to solve the problem of difficulty and expensive to see a doctor, it is
necessary to expand and optimize medical resources and it is also beneficial to facilitate
the medical system reform. Private-owned hospital is the backbone of the non-public
medical organizations. Actively develop private-owned hospital not only can rapidly
expand the medical resources relying on the societal forces and optimize the distribution
of resources, but also it can form a competitive framework of medical resources diversity
and break through professional monopoly. The development of private-owned hospital is
therefore a strategic measure of resolving the problem of difficulty and expensive to see a
doctor.

According to this understanding of current Chinese medical resources, our research
focused on the plight of Chinese private-owned hospital and its development strategy.
Through concentrating on the analysis of the constraining factors that limited the
development of private-owned hospital, we expect to propose a number of
recommendations to facilitate the development of the private-owned hospital. By doing
so, we hope that the private-owned hospital will be strengthened faster and become an
important force accompanying the state-owned hospital. Hence, the private-owned
hospital and the state-owned hospital can simultaneously provide convenient and
inexpensive medical services to the public with high quality.
PART TWO  LITERATURE REVIEW

THE CIRCUMSTANCE OF CHINESE MEDICAL RESOURCES

The problem of difficulty and expensive to go to a hospital

The publication of the Ministry of Health in 2004 indicated that about 48.9% of Chinese citizen did not go to hospital when they are sick, and 29.6% should be hospital patients but they did not choose to do so. The investigation identified that the main cause is that the medical charge grows too fast. Over the past five years, the average annual income growth of urban dweller is 8.9%, in the rural area the number is 2.4%, while their annual medical health expenditure has grown 13.5% and 11.8% respectively. It is obvious that the growth of medical service fees has far surpassed the income growth rate. Medical health expenditure becomes the third consumption expenditure following the family food and the education. Thus, “it is expensive to go to a hospital” become the focused topic of the public (The Ministry of Health, 2004).

In 2005, The Health Bureau of Beijing City conducted a survey of the forty nine large-scale state-owned hospitals. Among these forty nine hospitals, there are only five hospitals that citizens feel “basically satisfied”. The main reason concentrated on the following three aspects: 1) the customer can not afford the hospital fees; 2) the customer is not treated as patient; 3) the hospital cannot protect the privacy of the patients. The survey also indicates that in the conflict between the hospital and patients in recent years 40% of the occurrence is associated with the problem of medical personnel lacking love, sympathy and accountability. Thus, unsatisfied customers are not limited to the medical incidents and technical barriers (Li, 2005).

The Overall Shortage of the Medical Resources

In 2005, some of the representatives who participated the Chinese National Congress and Chinese Political Consultative Conference had pointed out that the problem of difficulty to go to a hospital is because of overall shortage of medical resources. Chinese population has accounted for 22% of the world, but the medical health resources only accounted for 2% of the total resources (Lu, 2005).

In a discussion of economist network, some mentioned that the problem of high price of medicines could be attributed to the linkage between a curing medical staff and the medicine, that patients paying a high price could be attributed to the information asymmetry between the doctors and the patients. The problem is really due to the administrative monopoly of the medical market as well as the high entrance threshold of medical organizations that created the medical resource shortage. Demand surpassed the supply resulted in a situation that State-owned hospital always in an advantage status in the relationship between hospital and patients (Wu, 2005).

The Government Can Not Take Charge for All the Resources
In the July of 2005, Mr. Gao Qiang—the Minister of Health—had pointed in his report “Developing Medical Health Enterprise and Make Contribution to the Harmony Socialist Construction” that 90% of China’s current medical service organizations belongs to the public-owned medical organizations. Thus, there are big conflict between the enormous public hospital scale and the fiscal capacity. The basic outline of the future reform is that the government stipulate unified regional public health plan, confirm the number and scale of remaining public medical organizations according to the public health service and the demands of the citizen for basic medical service. The government is also responsible for public health and basic medical service. The other public hospitals could introduce the market mechanism, absorbing the social capitals and adjusted to the non-profit or for-profit medical organization. In the economic transformation, government has a number of responsibilities. It is impracticable for the government to input on one area in a large scale. Thus the government has to consider the appropriation efficiency and put the limited the fiscal resource into the key areas and thus generating more benefits (Gao, 2005).

Medical Organization Necessitate Competition

In China, what lacks are the sufficient utilization of advantageous medical resources and also lacks the expanding mechanism and environment of advantageous medical organizations. It is also essential to build an effective competition mechanism. To thoroughly solve the many problems of medical system, it is vital to formulate an effective rivalry system among the medical organization. Thus, an essential outlet of protecting the interests of the patients is to eliminate the unjustified protection of local government toward local hospital, break through regional monopoly of medical organizations, forming a fair competition environment among the different background medical organizations and letting the market competition to realize the result of screening out the poor while keeping the fittest of medical organizations (Zhou, 2005).

Mr. Yao Zhibin, the provincial public health director of Guangdong remarked that accompanied the societal economic development, the medical demands of the public is also increasing. Thus, following the essential interests of the public and meet their needs of medical health care, it is necessary to adjust the original model of medical service, introduce the competition mechanism, allowing the competition between State-owned hospital and private-owned hospital. Only through competition, can the public and private hospital be encouraged to improving their management, developing new technology and provide high-quality service with low cost (Southern Net, 2004).

Actively Develop Private-owned Hospital

Since 1978, though the economic strength of China has been improving all the time, the basic situation of enormous population, very low basis and low average economic level have not been changed. Reviewing on these conditions, the government should not and also impractical to afford comprehensive medical needs of the public. In addition to the main role exerted by the government and ensuring the public the basic medical health service needs, it is necessary to absorb social resources, utilizing the roles of market
mechanism. Through the multiple funding channels of governmental, societal and individual, develop the cause of public medical health. To resolve the public problem of difficulty and expensive to go to hospital, the fundamental means is to accelerating development and strengthening the medical health resources (Gao, 2005).

The 2004 Working Conference of Guangdong Private-owned Hospital reveals that the development of the private-owned hospital in the province was prosperous. Until October of 2004, the province had 138 private-owned hospital, the investment had reached 4.01 billion CNY with 10,617 beds which accounts 6.1% of the total hospital beds in the province. Mr. Yao Zhibin, the provincial public health director of Guangdong commented that the development of private-owned hospitals has complemented the investment shortage of the government toward medical field, reduced the pressure of government investment to hospital, thus conducive to the formulation of tripod medical arrangement with State-owned, foreign capital-owned and private-owned hospitals. The development of private-owned hospitals had already instilled strong momentum for the Guangdong medical service system and becoming an inevitable force in the process (Southern Net, 2004).

THEORY OF NPM

Over the past decades, governments over the world have experienced a reform effort widely recognized as new public management movement. The main characteristics of NPM can be regarded as downsizing government scale, contracting out public service to the private and non-for profit organization, privatization, performance measurement and market orientation. One important feature of NPM is the competition between governmental agency and private organization.

The practice of NPM is partly based on the public choice theory which believes that the monopoly of bureaucratic agency in providing public service and the derived information asymmetry are the sources of various government problems. Government failure such as low efficiency and bureaucratism can be traced to the monopoly of bureaucratic organizations towards the production of public goods and information. Hence, break through the monopoly status of bureaucracy and introducing the competition mechanism have become the inevitable choice of improving the government performance and eliminating the government failures. Just as Mueller noted, whenever possible, government will act as the sole monopolist; wherever possible, so long as there is competition, it will tend to positively influence the efficiency. This is equal to the effect of competition between enterprises (Chen, 2005).

The rediscovery and utilization of market value is the core of public choice theory. Public choice theory believes that in order to improve the operating efficiency of bureaucracy and eliminate the government failure, the essential path is to cancel any format of “public monopoly”. To recover the competition, introduce market mechanism and apply market methods to public service production in the public sector is the right approach to cure public maleficence. Public choice theory also argues for breaking out the monopoly status of government and releasing some functions of government to the market and
society thus building the competition between the public and private sector. This theory also emphasizes that competition will enhance efficiency, generating a result of inputting less while outputting more. This will also help to realize the consumer sovereignty and “public sovereignty” as well as providing “voting with foot” opportunity to the public (Ye and Lin, 2004).

INTERNATIONAL EXPERIENCES

United Kingdom

Before 1990, the medical health system is dominated by the government. The government is both the provider and the purchaser of health service. All the hospitals are public-owned and directly surprised by the local health bureaus. These hospitals lack discretionary power. Local health bureaus will purchase health service with public funds from tax revenue. From surface, this kind of medical health system can best ensure equity of medical service. Nevertheless, because the monopoly of the public-owned hospitals and without any competition, which resulted in reduced efficiency of medical delivery and declining service quality as well as other shortcomings such as organizational interests are treated as higher than the patient interests, these problems aroused strong complaints from the mass of people. Hospitals cannot respond the demands of customer in a timely manner that led to long time waiting to be treated. When this occurs to the patients who need operations while they have to wait for a long time, the situation becomes unequal to most patients. To change the above mentioned shortcomings, the United Kingdom began to reform its medical health system in 1990. The main approach is to separate the original overlapping role of medical service provider and purchaser, thus forming competition between hospitals. Public health bureaus became the purchaser and professional surveillant from their original role of medical service provider and purchaser. Public health bureaus no longer organize hospitals to provide health service, they also no longer to provide service funds to the hospital. Rather, public health bureaus will purchase service from public or private hospitals through contract on the basis of comparing prices and service quality. This fair format of purchasing medical service had formed hard external constraints toward hospitals and strengthened motivation of competitions among hospitals (Tang, 2001).

United States

The medical service organizations in the USA are classified as three types. The first type is the non-profit hospital which is usually sponsored by the religious groups and charity organizations. The second type is for-profit hospital and also is called private hospital (operated by private enterprises or organizations). The third type is public hospital (Owned by the Federal, state and local governments). In 1995, non-profit hospital accounts 56% of all the hospitals in the USA, for-profit hospital 25%, while the public
hospital 19\% (Paul, 1998). It is therefore obvious that the medical service in the USA is mainly provided by the market rather than the government.

Germany

In Germany, there are 2260 hospitals. Their hospitals are also divided as public hospital, private non-profit hospital and private for-profit hospital which accounts for 37\%, 40\% and 23\% respectively. In recent years, the internal system of hospitals in Germany is changing rapidly, with an increasing role played by the private non-profit and private for-profit hospitals. The scope of medical service is wide which include ordinary diagnosis and treatment of specific illness as well as diagnosis and treatment of uncertain illness. From the current development trend of German different types of hospitals, the public hospital is downsizing its scale while private for-profit hospital is expanding. Apparently, the development of private for-profit hospital can not only absorb social capital for the medical health field, but also can ensure the whole society a sufficient medical service capacity to meet the citizen’s health service needs. Furthermore this situation also reduced the burden of the government (Gong, 2002).

Singapore

In recent years, Singapore government has been trying to expand the role of the private sector in providing medical care. The basic medical care strategy is that the public sector only provides basic service, the remaining services are on the shoulder of private sector. There are 22 hospitals in Singapore, with eleven public-owned and eleven private-owned hospitals. In the 1980s, all the hospitals are directly managed by the Ministry of Health. Afterwards, these hospitals are corporationalized. These hospital are managed by the Singapore hospital corporation that relying on private hospital methods. Hospitals receive medical subsidies from government and are not for-profit (Tian, 2002).

PART THREE  RESEARCH METHODOLOGY

Theoretical Framework

This paper adopts public choice theory as its research theory framework. This public choice theory has contributed greatly to the new public management (NPM) movement which practiced by the United Kingdom, New Zealand, Australia, United States and many other countries since the end of 1970s. Thus public choice theory becomes an important theoretical resource of NPM. Under the guidelines of NPM movement, many western countries have shed their public services to the non-government organizations while government focused on providing directions, planning, creating conditions and providing guarantees for public services. The role of government begins to change from oar to Helmsman. These countries that practiced NPM style of reforms have also introduced competitive mechanism into the production of public service. Through the mean of bidding, they encouraged competition between private organizations, private and public organizations and public organizations. These exercises has not only reduced the
burden of government but also enhanced production efficiency. One metaphor of competition is the story of catfish. Sardine that comes from North sea is indolent by nature. They would dye soon after being caught from the sea because they do not move. Thus the dead sardine cannot be sold for a good price. The local fishermen thus conceived a good idea by putting a few fierce catfishes that will pursue the sardine. Hence the sardine is under the tight pressure to swim in the fish well. Under such a panic condition, the sardine is full of energy and can survive for a much longer time. The fishermen can sell the sardine for a good price too. The catfish story is enlightening. We perceive that the private-owned hospital in China is like catfish that can drive the service quality and efficiency of China’s medical health system.

Hypotheses

This paper concentrates on the surviving environment and development strategies of private-owned hospitals. In China, private and public hospitals collectively constitute the medical service system. However, private hospital is not comparable to public-owned hospital in the system since the public-owned hospital is in an absolutely dominant position. Private hospitals are not on the par with public hospitals because private hospitals started very late with limited numbers and small scale. The property of most private-owned hospital is in the range between one million to five million CNY. The number of hospitals for those whose asset worth more than thirty million CNY only accounts for 7% of the total private hospital. Based on the circumstance of China’s medical service system, we propose the following hypotheses:

- There are gaps of public policy between private-owned hospitals and the public-owned hospitals. Public-owned hospital enjoys some favorable policies compared to the private-owned hospital.

  Public-owned hospitals are established by the government investment. They shoulder the duty of providing public goods for the society and meet the basic medical needs of people. Thus the public-owned hospitals are the strategic resources controlled by the government and the government has given support by policy preference. Though private-owned hospital emerged under the permission of government, their role is not sufficiently demonstrated because of its short history as well as the perception of it as complementary to the public-owned hospital. Thus the preferential policies given to the private-owned hospital is less than that of public-owned hospital. It is possible that public-owned hospital enjoys some favorable policies compared to the private-owned hospital.

- The societal recognition toward the public-owned and the private-owned hospital is different.

  The majority people have more confidence in public-owned hospitals because they are owned by the government with a long history, good equipments and many talented experts. For the private-owned hospital, they are owned by the private individuals, their expertise and service quality are poor. Also, their purpose is for profit. Thus, people feel uneasy to go to private-owned hospital for
treatment. Therefore, more patients prefer to go to public-owned hospitals.

- It is harder for private-owned hospital to survive than public-owned hospitals. With the first two hypotheses and the internal problem of private-owned hospital, it is not difficulty for us to extrapolate that private-owned hospital is in hot water. Some private-owned hospitals are surviving in very difficulty situation. Private-owned hospital may enter into dead lane if the government does not provide policy support to improve its living environment.

Data Collection

From 15 to 22 September of 2005, we visited ten private-owned hospitals in the hope to test the three hypotheses. Because of limitation of access, these private hospitals are not probability sampled, rather, they are recommended by one medical advertising company. To improve their representative, we have requested the company to consider all the relevant aspects. Among them, six hospitals are comprehensive, one plastic and cosmetic, one dentist, one ophthalmic and one Chinese integrative medicine.

The following table is a basic description of these hospitals
<table>
<thead>
<tr>
<th>Hospitals</th>
<th>Category</th>
<th>Founding time</th>
<th>Asset (One million CNY)</th>
<th>Numbers of Doctors</th>
<th>Numbers of Nurses</th>
<th>In-hospital beds or chairs</th>
</tr>
</thead>
<tbody>
<tr>
<td>HOS1</td>
<td>Comprehensive</td>
<td>1999</td>
<td>2</td>
<td>15</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>HOS2</td>
<td>Comprehensive</td>
<td>2003</td>
<td>NA</td>
<td>36</td>
<td>NA</td>
<td>36</td>
</tr>
<tr>
<td>HOS3</td>
<td>plastic and cosmetic</td>
<td>2002</td>
<td>NA</td>
<td>25</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>HOS4</td>
<td>Comprehensive</td>
<td>1999</td>
<td>NA</td>
<td>56</td>
<td>NA</td>
<td>30</td>
</tr>
<tr>
<td>HOS5</td>
<td>Chinese integrative medicine</td>
<td>2002</td>
<td>NA</td>
<td>17</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>HOS6</td>
<td>Dentist</td>
<td>1988</td>
<td>NA</td>
<td>45</td>
<td>NA</td>
<td>30</td>
</tr>
<tr>
<td>HOS7</td>
<td>Comprehensive</td>
<td>2002</td>
<td>NA</td>
<td>22</td>
<td>9</td>
<td>20</td>
</tr>
<tr>
<td>HOS8</td>
<td>Comprehensive</td>
<td>2004</td>
<td>NA</td>
<td>28</td>
<td>20</td>
<td>NA</td>
</tr>
<tr>
<td>HOS9</td>
<td>ophthalmic</td>
<td>2004</td>
<td>NA</td>
<td>7</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>HOS10</td>
<td>Comprehensive</td>
<td>2003</td>
<td>NA</td>
<td>44</td>
<td>NA</td>
<td>30</td>
</tr>
</tbody>
</table>

The basic conditions of these ten hospitals are as follows:

HOS1 is a comprehensive hospital, established in 1999 with a registered fund of 2 million, fifteen doctors.

HOS2 is a comprehensive hospital, established in 2003 with 36 doctors and 36 beds.

HOS3 is one plastic and cosmetic hospital, with 25 doctors. It is the largest of the same sort in mid-southwest region.

HOS4 is a comprehensive hospital, established in 1999 with 56 doctors and 30 beds.

HOS5 is a Chinese integrative medicine hospital, established in 2002 with 17 doctors.
HOS6 is a dentist hospital, established in 1988, with 30 professional chair and 45 doctors, has a good reputation of similar private-owned hospital in China.

HOS7 is a comprehensive hospital, established in 2002, with 22 doctors, 9 nurses, 20 beds.

HOS8 is a comprehensive hospital, established in 2004, with 28 doctors and 20 nurses, the main focus is on surgery.

HOS9 is an ophthalmic hospital, established in 2004 with 7 doctors. Among the doctors two have doctoral degree and one has master degree.

HOS10 is a comprehensive hospital, established in 2003, with 44 doctors and 30 beds.

This investigation has used face to face interviews. The interviewees include 3 hospital presidents, four vice presidents, two section chiefs of medical affairs and one office director. In our interview, three issues were raised. The first one is the overview of the hospital history. The second one is the most prominent difficulty and problems facing the hospital. The third one is their recommendations for the development of private-owned hospitals. By and large, the respondents are very cooperative and open-minded. They provided comparatively comprehensive and true information. Nevertheless, they all feel reluctant to address questions related to financial situation such as revenue and expenditure. In each hospital, the length of interview is about two hours.

PART FOUR INTERVIEW RESULT AND ANALYSIS

For our interview, the ten hospitals have consensus that private-owned hospitals are surviving in a very difficulty situation and it is very hard to run the hospitals. Their problems are reflected in the following aspects:

First, the society lacks recognition and understanding for the private-owned hospitals. HOS1, HOS2, HOS9 and HOS10 believe that people keeps a suspect attitude toward private-owned hospital. People do not believe and accept private-owned hospital thus not many patients come for treatment. HOS1 has only a few out patients, the least visited hospital among the ten investigated. HOS9 has about forty out-patients and ten in-patients each day, which is at middle level of the ten investigated hospitals. HOS2 has the most out-patients close to 200 people. They have about fifteen in-patients each day. They commented that the reason for minor sickness costing high price, big hospitals full of patients, private-owned hospitals with sparse visitors, is that people do not know private-owned hospitals. They mentioned that their hospitals have adopted many means to adjust the vehement market competition and win more customers. They also meet the country’s standards for opening the hospitals. They can diagnosis and cure ordinary diseases and some special diseases with high quality and inexpensive service.
Second, the coverage of mass media toward Private-owned hospital is incomplete and unfair. The four hospitals (HOS1, HOS3 HOS5 and HOS9) have many complaints on this point. They said that the mass media has reported too much of the illegitimate conducts of some individual private-owned hospitals while reported too little of the touching stories of the majority private-owned hospitals. Also, the mass media has exaggerated the case in the conflict between patients and private-owned hospitals. The mass media did not differentiate between individual illegitimate practitioners and the legal private medical organizations. The aftermath of these unfair and incomplete reports is the formation of a perception that private medical practitioners are not reliable and only State-owned hospitals are credible. These negative reports also strengthened the unfavorable recognition toward private-owned hospitals. The interviewees complain that the media reported too little of the public policies toward the development of private-owned hospitals and the role of private-owned hospitals in the medical health system. However, the media report the problems of private-owned hospital too easily. They reports adopted double standards toward private and public-owned hospital. The interviewees mentioned that if similar events occurred in the public-owned hospital, the supervising health bureaus will attempt to protect the hospital and the media will also consider the outcome of its exposure. Nevertheless, if such things occurred in the private-owned hospitals, the mass media will try to play the role as telling the truth to the public. The interviewees correlate the negative image of the private-owned hospitals with the long-term shortage of positive reports by the mass media.

Third, the operating environment is not slack and fair. Four hospitals (HOS2, HOS4, HOS7 and HOS9) responded that some government agencies replace law with penalty, supplant management with penalty and punish with fines too easily. Some organizations such as technical monitoring, goods price, urban management, public safety, are supposed to help regulating and managing. In reality, however, they appear to be organizations established for fines. They usually do not leave private-owned hospitals opportunity to explain and adjustment. Once there is a problem, there is a fine waiting the hospital. The interviewee appeals that similar problems occur in the public-owned hospitals would not be treated in the same ways. The supervising medical bureaus will help their subordinate and the fines will not be executed since the public-owned hospitals simply ignore the issues. In our interview, the representative of HOS7 said that competition is not fair. He mentioned that whenever the government tries to adjust the medical market and beat the illegitimate medical practicing, in the street-level, the policy is targeted at private-owned hospitals and have a number of repeating examination. In contrast, the public-owned hospitals are seldom examined although they have a lot of problems.

Fourth, running cost is very high and there is serious surviving crisis. The representative of HOS8 has summarized this problem. He approached this issue from the perspective of revenue and expenditure aspect. Private-owned hospital has only one “low inflow faucet” while they have “six high outflow faucet”. The one “low inflow faucet” suggests that the various item charge of the private-owned hospital is lower than the public-owned hospital. The “six high outflow faucet” indicates that the private-owned hospitals have to pay high-priced rental fee first. Secondly, they have to purchase equipments with high
price. Thirdly, they need to recruit experts with high salary. Fourthly, they have to give a number of benefits to the customers. Fifthly, they have to expend huge financial resources for advertisements. Sixthly, they have to pay employees with higher salary. Taking the example of his hospital, the representative of HOS8 said the appendix surgery charges 3500 to 4000 CNY, in comparison, a nearby similar scale public-owned hospital charges 6000 CNY. HOS8 has to pay advertisement cost and building rental cost which accounts 40% of the total expenditure. The public-owned hospital does not pay these expense items. Among the ten private-owned hospitals, four (HOS1, HOS5, HOS8 and HOS10) is in deficit last year, four (HOS2, HOS4, HOS7 and HOS9) barely makes an even and two (HOS3 and HOS6) make a marginal benefit.

Fifth, the Private-owned hospital has to pay heavy tax and the tax policies were implemented unfavorably towards the hospital. All the investigated private-owned hospitals reflect that 5.5% Business Tax and 33% Business Income Tax plus Education additional Tax and other relevant taxes are too heavy for the hospital. Public-owned hospitals are also hospital, they not only do not need to pay tax but also they enjoy subsidies from the government. Private-owned hospitals do not enjoy any subsidies but have to pay various taxes. The situation is really unfair. These private-owned hospitals are afraid that after three years of completed tax-free period, the surviving circumstance of private-owned hospital will become even more difficulty. HOS2 and HOS9 reported that they have purchased some equipment in loan in the starting phase. Now they are going to pay the price but tax bureau regards these expenditures as the profit of the hospital and they do not deduct the amount from the tax base. So these two hospitals have to pay business income tax for the expenditure of the equipment. The representative of HOS6 said that they only have one book of accounting, truly reflected the salary of its employees. However, after examination, the Tax bureau officers requested the hospital to submit more than 3 million business income taxes for the last three years. The logic of the tax bureau is that the monthly salary of the private-owned hospital employee is about 800 CNY, the remaining revenue will be considered as profits of the hospital. Facing this situation, the representative of HOS6 said that the hospital will consider to make too books of accounting in the future.

Sixth, there is a price for entering list of medical insurance organizations. For the ten hospitals investigated, four (HOS2, HOS4, HOS8 and HOS10) have entered the list of municipality designated medical insurance organizations, HOS7 has entered the list of district-designated medical insurance organizations. The remaining five hospitals have not entered the list of medical insurance organizations. So for those entered and not entered each accounts for 50% respectively. This situation basically reflects the true circumstance of Chengdu in this regard. The representative of HOS3 said that Chengdu is open to the private-owned hospitals entering the list of medical insurance organizations. So long as the hospital meets the conditions of medical insurance organizations, they can join the list. HOS4 and HOS10 are two units that have entered the list of municipality designated medical insurance organizations. They are angry about the stipulation that if the patients who joined the medical insurance go to their hospital for treatment, the hospital can only charge 80% of the Second Class B level public-owned hospital. The representative continued said that their overall power has reached Second Class A level
of the public-owned hospital, even reached the level of Third Class for some individual subjects. Pay the same labor and provide higher quality of service, why on earth their charges are lower than that of similar public-owned hospitals. This is obviously unfair. However, they feel that there is nothing they can do. They have to crowd in the list of designated medical insurance organizations at a price. The main reasons are two aspects. First, within the list of designated medical insurance organizations, the hospital can expand the resources of patients, especially the main stream patients. Second, they can raise their reputation and increase the attraction, similar to the effect of assessing the class of public-owned hospital.

Seventh, ambivalent feelings toward the medical advertisement: love yet hatred. All the ten interviewed hospitals concertedly reflected that medical advertisements are significantly important for their survival. It is like a suicide for the private-owned hospital if medical advertisement is abrogated. They said that the private-owned hospital has ambivalent feelings toward the medical advertisement with love and hatred emotion simultaneously. “Love” indicates that the private-owned hospital must advertise and sell themselves since they don’t have the reputation that the public-owned hospital hold. The patients will go to the public-owned hospital without any advertisement. In contrast, the public do not recognize the private-owned hospitals if the latter do not advertise themselves. The interviewees believe the effectiveness of advertisement as a selling method. The number of patients will increase after the advertisement begins while the number of patients will decrease after the advertisement stops. “Hatred” feeling is because of the enormous expenditure of advertisement. HOS7 spent 2 million CNY for advertisement last year while HOS8 invested 1.2 million CNY last year. The advertisement cost of HOS9 accounts for 30% of its total expenditure. They said that the advertisement cost is so agonizing for the private-owned hospital. Nevertheless, the private-owned hospital has no other avenues.

Eighth, the for-profit and non-for-profit hospital categories divided by the government is far from reality. The representatives of three hospitals (HOS2, HOS3 and HOS9) said that public-owned hospitals belong to the non-for-profit hospital and private-owned hospitals belong to the for-profit hospital according to the classification of government. In reality, however, the public-owned hospitals, especially those large-scale hospitals, are big profit making organizations. The nominally for-profit private-owned hospitals do not make profit and even being in deficit. They analyze that the classification of government actually put the private-owned hospitals in an unfair competitive position. The policy outcome of which are threefold. First, such classification strengthened monopoly status of the public-owned hospital that benefited from both policy protection and market share. Their scale become bigger and bigger and they are making more and more money. Second, the classification has thrown the private-owned hospitals into the “netherworld”. Because the private-owned hospital is viewed as for-profit hospital and not the “children” of the government, they have to fully rely on themselves for input and they have to submit tax as business enterprise with many constraints. Third, the private-owned hospitals do not enjoy the benefit of unfrozen fixed prices. From theoretical point of view, as for-profit hospital, the private-owned hospital can charge freely according to the market circumstance. Nevertheless, in reality, when facing the competition of
powerful public-owned hospitals and under the constraints of invisible hands of market, the charges of majority of private-owned hospital will usually lower than that of similar scale public-owned hospitals. The representatives sighed that the direct result of the public is seriously jacketed the development of the private-owned hospitals and it is difficulty to generate powerful private-owned hospital that can compete with the public-owned hospital. The problem of “it is difficulty and expensive to go to hospital” can not be well solved without the breaking of the public-owned hospital monopoly.

Ninth, other problems. HOS4 and HOS7 said that some medical programs do not open to the private-owned hospitals such as the surgery of family planning and gynecology business, hepatic and sexual diseases. These areas are monopolized by the public-owned hospitals. Although some private-owned hospitals do have the capacity to deal with such diseases but the public health bureaus do not permit the private-owned hospitals to enter these fields. The representatives of HOS2 and HOS7 said that their staff become old and lacks young and middle aged backbones. HOS2 has 36 doctors among whom two thirds are recruited after their retirement. In HOS7, 80% of their doctors are elder than fifty years old. HOS3 said that on the job-training for the private-owned hospital doctors is not scheduled in the public health bureau and rely on their own connection. The governmental research projects do not allocate to the private-owned hospitals. These issues directly relate to the improvement of professional standards of doctors and the future of career developments. They are linked to the attraction of private-owned hospitals for the talents.

PART FIVE POLICY RECOMMENDATIONS

The empirical study has at least partially tested and confirmed our three hypotheses.

For the first hypothesis, there are gaps of public policy between private-owned hospitals and the public-owned hospitals. Public-owned hospital enjoys some favorable policies compared to the private-owned hospital. In our analysis, the perspectives of the third, fifth, sixth, eighth and ninth point tested and confirmed the first hypothesis.

For the second hypothesis, the societal recognition toward the public-owned and the private-owned hospital is different. The perspectives of the first and second point tested and confirmed the second hypothesis.

For the third hypothesis, it is harder for private-owned hospital to survive than public-owned hospitals. The perspectives of the fourth and seventh point tested and confirmed the third hypothesis.

Needless to say that the three hypotheses are intertwined. The above mentioned nine points serves as a touching stone to test these three hypotheses. They all tend to show that private-owned hospitals are in difficulty situation for survival. Hence, to help the private-owned hospitals to get rid of plight and march on the fast lane is a real urgent task. In our
The ten hospitals proposed some suggestions according to the difficulty and problems they have encountered. Their overall request is to enjoy a fair and equal treatment. On the basis of their suggestions, we propose our policy recommendations for fastening the development of private-owned hospital.

The government needs to accelerate the law making process for the non-public medical organizations. Over more than two decades of development, non-public medical organizations have undergone a process from non-existence to certain scales and have become an important part of the Chinese medical service system. Until 2003, the number of non-public medical organizations has reached 136198, somewhat comparable to the 143282 public medical organizations. Nevertheless, for such a huge and important organizational system, the nation has not enacted specific laws and acts. Private-owned hospitals are the backbone of non-public medical organizations. In terms of medical service scale, technical instruments, the level of talents and service quality, private-owned hospitals are leaders of the non-public medical organizations, representing the development direction of the non-public medical organizations. Yet from our investigation of the ten hospitals, they also face the problems of low social status, not recognized by the society, frequently be treated unfairly and other plight. The root cause is the shortage of legal status and without forceful protection of law. We believe that the nation should promulgate an “Act of Private-owned Hospital Management” which is the key to facilitate the health development of non-public medical organizations.

We need to construct an atmosphere of public opinion which is conducive for the development of private-owned hospitals. Like treating any other new-born things, the mass media should enthusiastically support the development of private-owned hospital. The mass media should contact and understand more of the private-owned hospital. The mass media should try to discover the strength of the private-owned hospital and report their contribution to the society. The mass media should try to report more stories of the private-owned hospital in saving the lives of the patients and help the private-owned hospital to establish a positive image. The public opinion monitoring is a powerful weapon in ensuring the health development of private-owned hospital. Thus the positive report of the mass media is an indispensable complement. These reports should be objective and fair and function as a facilitator rather than a dwarfing role. For the private-owned hospitals, they should also actively and consistently improve their advertisement and relevant reports. They should not only focus on the selling advertisement, they should but also pay attention to the reports of their own positive image. They should not only expand the reports in mass media, but also they should actively participate community medical service and various kinds of voluntary free services. The private-owned hospital should try to integrate the forces of the entire profession and win the battle of the reports.

We should arm the government officials with the theory and practice of new public management movement. Government officials are policy makers and carriers. Their recognition of introducing the private competition into the public service domain directly relates to their views and attitudes toward the private-owned hospitals. This recognition will further influence the policy-making and implementation. At the present, in regard to
the introduction of the private competition into the public service domain, the recognition of governmental official is somewhat stereotyped. Many problems facing the development of private-owned hospitals such as unequal policy, discriminating reports and simplification of executing the law are intimately associated with the prejudice of officials’ recognition. It is largely a responding of action reflecting the disparity of mindset. Therefore, introducing the theory and practice of new public management movement to the government officials and letting them know the overall trend of administrative reforms over the world is very helpful.

We need to establish an environment to create social resources for the private-owned hospitals. The flow of fund is bent to interests. The fund will flow to wherever the reward rate is high. In order to encourage more social capitals to be invested into the private-owned hospitals, the government has to establish a policy environment that could guarantee rational profit for the investor. The most focused requirement of private-owned hospitals in Chengdu and other parts of the country is a rational tax policy. Generally speaking, the private-owned hospitals charges less than that of public-owned hospitals while the expend items of the private-owned hospitals are more. If the private-owned hospitals are taxed, it is unfair compared to the situation of the public-owned hospitals. Whenever there are heavy burden for the private-owned hospitals with surviving difficulty, the situation will influence the social capital flowing into the medical service area, thus constraining the development and expanding of medical resources. Such a result is not fit with the overall strategy of establishing China’s medical health system. Thus, we suggest for those private-owned hospitals or medical programs who are willing to implement the nation’s unified price policy, the country should not levy any taxes and the private-owned hospital enjoy the same policy treatment with the public-owned hospitals. For those private-owned hospitals or medical programs who are unwilling to implement the nation’s unified prices, they should be taxed for the parts which go beyond the nation’s stipulated charge standards.

We need to expand the scope of fair competition between private-owned hospital and public-owned hospitals. The country need to promulgate a unified policy, permitting qualified private-owned hospital joining the list of designated medical insurance organizations.

We need to strengthen the professional self-discipline and credit construction of the private-owned hospitals. Trust crisis is the most challenging issue facing the current private-owned hospitals and it relates to their survival and development. There are several ways to do this. First, the government needs to strengthen its monitoring. Second, it is necessary to strengthen the trust awareness and the professional self-discipline of the private-owned hospital. Professional associations or societies are effective organizational forms in strengthening the professional internal management and self-constraints. Thus, establishing and perfecting such professional associations for the private-owned hospital is imperative.

It is necessary to further regulate the market behavior of the private-owned hospital. Regulate the advertisements of the private-owned hospitals is the key in regulating the
market behavior of the private-owned hospitals. In addition to the self-discipline, government agencies such as public health bureau and commerce bureau ought to strengthen their monitoring. Inspecting agency should also participate the management process and those violating the laws should be penalized.

We need to promote the “talented project” for the private-owned hospitals. The shortage of young and middle aged talents is the “heart-broken agony” of the private-owned hospital. This situation not only constrained the current development of the private-owned hospital, but also is the biggest barrier for the long-term development of the private-owned hospital. Thus, it is necessary to promote a “talented project” in private-owned hospital which should be led by the public health organizations. The talented project should resolve the core problems of personnel recruitment, title promotion, learning and training and research programs. The talented project should also promulgate policy encouraging the young and middle aged to flow into the private-owned hospital. Public health bureaus are the organizations representing government to manage the societal medical health organizations. It is necessary for the public health bureaus to improve their image and carries out the comprehensive functions of the government. Implementing the “talented project” for the private-owned hospitals is a good avenue for the public health bureaus to realize that objectives.

PART SIX  CONCLUDING REMARKS

For China to build a medical service system that is comparable to the socialist market economic system, it is imperative to actively develop private-owned hospital, forming a competition situation between public-owned hospitals and private-owned hospitals. Such a medical system could meet the basic medical needs of the people and it is also a medical system that is energetic and can meet different needs with high service quality. At present, because the Chinese private-owned hospital is a late comer with low numbers and scale, they are not on a par with the public-owned hospitals. There is a long way to go for the private-owned hospitals to exert their supposed role. Nevertheless, we believe that like the private-owned enterprises, their development is in consistent with the mainstream of the society. If only we can recognize and treat the private-owned hospital at the long-term strategic perspective and build a fair competitive environment, in addition to the good mechanism of the private-owned hospital, we believe that the private-owned hospitals will certainly be strengthened and expanded. We believe that in the foreseeable future the private-owned hospitals will become a powerful force that is parallel to the public-owned hospital in China’s medical service system and the private-owned hospitals will exercise an indispensable role.