Price Controls – Its Workability in the Health Sector

What is the issue?

\n\n

\n
- Delhi government has proposed to limit profits margins of hospitals, which dealing in drugs, devices and services.
\n
- While this appears to be a sensible way to protect consumers from profiteering, there are implicit challenges.
\n

\n\n

What is the proposal?

\n\n

\n
- The proposal is for capping profits for a range of medicines (and other devices) at 50% of the procurement price or manufacturing cost - whichever is lower.
\n
- The recommendations are seen as a reaction to the recent public outrage that followed the exorbitant prices charged by a private hospital for dengue.
\n
- The bulk of profiteering was found to be involving enormous mark-ups on drugs and such items as surgical gloves and syringes.
\n
- But while these recommendations are electorally popular, it doesn't seem practicable under the current context.
\n

\n\n

What are the problems?

\n\n

\n
- **Administration -** It is unclear how costs can be computed with accuracy as manufacturers don't divulge manufacturing costs publicly for most products.

\n
- Computing a “fair procurement cost” will be equally tough for the same reason.
\n
- Hence, the basis of the 50% limit can be open to endless interpretation, which would result in numerous litigations being filed.
\n
- Monitoring hospitals to ensure that they follow these pricing norms is a challenge as the state government doesn’t have the resources for the same.
\n
- It will also be difficult to stop hospitals form resorting to innovative ways to circumvent the cap on profits (ex: setting up of supply subsidiaries).
\n
- **Supply Issues –** The proposed administered pricing for medical procedures ignores factors such as the – doctor reputation, and quality of service.
\n
- If their earnings are capped, reputed doctors might migrate to other jurisdictions – which might cause shortage of doctors in Delhi.
\n
- Also, it is to be noted that the previous attempt by the central government to cap medical stents (heart implant) had resulted in its supply shortages.
\n
- Such a scenario might get created across medicines if Delhi’s comprehensive profit caps are implemented.
\n

\n\n

What is the way ahead?

\n\n

\n
- It is indeed a fact that private hospitals had got many subsidies from governments to enable them provide their services at cheaper costs.
\n
- But most hospitals are charging patients exorbitantly in their pursuit for money, a malice that needs to be addressed.
\n
- But considering the multiple challenges, capping costs isn’t a sustainable solution and the government needs to address the root cause of the problem.
\n
- The acute shortage of public healthcare facilities is what is giving the private hospitals headroom to fleece the masses.
\n

- Hence, it would be prudent for policymakers to increase healthcare infrastructure which is currently far short of international standards.
  \n
- Significantly, with about 2.71 hospital beds per 1000 people, Delhi fares far behind WHO recommended 5 beds per 1000 population.
  \n

\n\n

\n\n

Source: Business Standard

\n\n

\n