

Price Controls - Its Workability in the Health Sector

What is the issue?

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- Delhi government has proposed to limit profits margins of hospitals, which dealing in drugs, devices and services.

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- While this appears to be a sensible way to protect consumers from profiteering, there are implicit challenges.

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What is the proposal?

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- 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.

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- The recommendations are seen as a reaction to the recent public outrage that followed the exorbitant prices charged by a private hospital for dengue.

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- The bulk of profiteering was found to be involving enormous mark-ups on drugs and such items as surgical gloves and syringes.

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- But while these recommendations are electorally popular, it doesn't seem practicable under the current context.

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What are the problems?

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

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- Computing a “fair procurement cost” will be equally tough for the same reason.
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- Hence, the basis of the 50% limit can be open to endless interpretation, which would result in numerous litigations being filed.
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- 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.
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- It will also be difficult to stop hospitals from resorting to innovative ways to circumvent the cap on profits (ex: setting up of supply subsidiaries).
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- **Supply Issues** - The proposed administered pricing for medical procedures ignores factors such as the – doctor reputation, and quality of service.
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- If their earnings are capped, reputed doctors might migrate to other jurisdictions – which might cause shortage of doctors in Delhi.
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- 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.
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- Such a scenario might get created across medicines if Delhi’s comprehensive profit caps are implemented.
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What is the way ahead?

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- It is indeed a fact that private hospitals had got many subsidies from governments to enable them provide their services at cheaper costs.
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- But most hospitals are charging patients exorbitantly in their pursuit for money, a malice that needs to be addressed.
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- But considering the multiple challenges, capping costs isn’t a sustainable solution and the government needs to address the root cause of the problem.
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- The acute shortage of public healthcare facilities is what is giving the private hospitals headroom to fleece the masses.
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- Hence, it would be prudent for policymakers to increase healthcare infrastructure which is currently far short of international standards.
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- Significantly, with about 2.71 hospital beds per 1000 people, Delhi fares far behind WHO recommended 5 beds per 1000 population.
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Source: Business Standard

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