Regulation of prices in Medical Sector

What is the issue?

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- A study by the Maharashtra Food and Drug Authority examined invoices from 12 major hospitals in Mumbai and found that basic medical supplies for heart patients were dangerously overpriced.
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- This calls for an intervention from the government.
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Why medical supplies are overcharged?

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- Charging more for profit in the general areas of the bill where the patient can clearly see what they are being charged for like the services of the hospital might reduce their brand image as affordable.
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- Patients are also less aware of the prevailing prices of the equipments.
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- Hence hospitals choose this grey area to shift their profit margin.
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Is intervention an ideal action?

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- In a free market system, government should not generally intervene with it and its prices.
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- But health sector is different from other sectors in a market on following grounds.\n
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1. They depend upon an inability of patients to shop around at a time of

medical emergency.
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2. Assumptions of perfect competition require common knowledge about underlying prices and the services on offer. But in case of medical services there is always an enormous information asymmetry between the service provider and the patient i.e the provider always knows more.
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- Hence some calculated intervention is needed.
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What should be done?

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- Price caps can be one option. e.g National Pharmaceutical Pricing Authority recently capped the price of cardiac stents.
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- But they do not allow enough flexibility over time.
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- Customs duties on imported medical equipment have been reduced in the new goods and services tax, or the GST, regime.
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- This might encourage hospitals to continue to shift their charges away from the correct section on their bills. Perhaps the tax implications of this need investigation.
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- A list of suggested charges for standard procedures and equipment should be produced so that patients at least have a sense of the degree to which they are being “overcharged”, and can raise it with the hospitals directly.
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- This increase in information for consumers can help the market work more efficiently.
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- The Competition Commission can inquire into whether these prices being charged to patients are being fixed in collusion between hospitals in a certain geographic area, such as Mumbai.
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- Courts consider the Consumer Protection Act, 1986, as applying to health

care services that charge a “fee”. The Act could be amended to ensure that the definition of a “fee” includes hospitals that are hiding their charges for their services by inflating the cost of supplies.
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Source: Business Standard

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