

Research on Issues Related to Controlling Medical Expenses

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Abstract—In recent years, China's medical costs have continued to increase, with heavy personal and national burdens. The characteristics of medical services have led to an inherent trend in both price and quantity growth. To control the unreasonable increase in medical expenses, it is required to control prices, and avoid the moral hazard of both the supply and demand sides in insurance. This paper analyzes the current status of medical disputes in China, understands the causes of the rapid growth of medical disputes in China from the perspective of the formation process and causes of medical disputes, finds existing problems in the precaution and treatment of medical disputes, explores active and effective precaution and treatment of medical disputes based on a comprehensive analysis, and provides measures and feasible suggestions.

Keywords: *medical expenses, excessive growth, countermeasures, medical disputes, precaution, treatment measure*

I. INTRODUCTION

In recent years, with the improvement of people's living standards, the medical expenses of Chinese residents have continued to increase, and the total health expenses in 2007 amounted to 1,128.95 billion yuan. The rapid increase in total health expenditure not only shows people's investment and attention to healthy human capital, but also reflects the heavy financial and economic burden of the country and individuals. Considering the reason for the increase in medical expenses, in addition to changes in supply and demand, the promotion of the market mechanism is an important factor. This paper elaborates on the price and quantity of medical expenses, and puts forward countermeasures to control the excessive growth of medical expenses.

II. THE CHARACTERISTICS OF MEDICAL SERVICES MAKE IT AN INHERENT TREND OF RISING PRICES

A. Lower price elasticity of demand

As a cause of demand, medical services are an inevitable choice when people face disease risks. Generally, based on the importance of life health and utility of life quality, people tend to pay more attention to their quality signals when purchasing medical services, and are relatively insensitive to

price. The serious information asymmetry between the supply and demand makes it impossible for the demand side to make independent decisions, and it is impossible to make selections based on price signals. In addition, health is a basic right of citizens and has certain positive externalities. Countries often provide various forms of medical insurance, thereby reducing the useless payment price of products to a certain extent, and making the needs of residents less price elasticity. Compared with the basically stable consumer price index, China's health care consumption price index has increased year by year in recent years, and it also reflects the severity of the "expensive medical treatment" to some extent.

B. The use of advanced diagnosis and treatment

Compared with limited medical resources, people's health needs are unlimited. With the improvement of the payment ability, people tend to buy high-tech products with more accurate diagnosis and treatment but more expensive price. The application of high-tech in the medical field has greatly improved the quality of service and the value of human life, but has led to a significant increase in production costs. The overall price level of medical services has an inherent trend of rising. In addition, the competition for patients has also strengthened the quality competition among medical institutions, thereby strengthening the role of technology in driving prices up.

At present, China adopts a cost-based government guidance price for medical services. Under the constraints of the existing imperfect pricing system, when the human capital pricing of a product is too low to make up for its production costs, hospitals tend to replace or use other physical capital, such as medicines, large equipment, etc., which not only causes the shortage of high quality medical technology services most needed by patients, but also causes the waste of resources, unreasonable drug use and iatrogenic diseases.

C. Non-standardized products

Medical services have the characteristics of non-standardized products. In addition to the quality related to the professional foundation of doctors, their quality is also related to their clinical practice and experience accumulation. At present, the relatively insufficient supply of high-quality medical resources will not only exacerbate the internal

motivation for price increases, but also increase the real price level due to increased costs for other aspects of patients (waiting time, red envelopes, etc.).

III. THE CHARACTERISTICS OF MEDICAL AND HEALTH SERVICES MAKE IT HAVE AN INHERENT TREND OF INCREASING NUMBERS

A. *Low demand income elasticity*

As income levels rise, people's demand for health services increases. For example, people's life expectancy has increased, and the needs of the elderly population have increased. The improvement of living standards has changed the spectrum of diseases, and the demand for treatment of chronic diseases has increased. In addition, higher income levels also mean greater opportunity costs of disease and greater willingness to pay for health services. Therefore, medical services are a normal commodity, and the income elasticity of demand is small.

B. *The moral hazard of the demand side*

Medical insurance can help residents better protect themselves against the risk of disease and minimize the potential loss from disease. However, due to the serious information asymmetry between patients and the insurer, the moral hazard of the demand side has led to an inherent trend in the growth of medical services. The existence of insurance will change the behavior of the insured, such as the reduction of certain beneficial health insurance investment in disease insurance, especially when the insured's economic conditions are poor. In rural area of China, if insurance only reimburses the cost of disease diagnosis and treatment but not reimbursement for preventive health care, it will make farmers less motivated to take the initiative to preventive health care, which will cost more if they become ill.

In addition, as insurance reduces the true price of medical service products, consumers are inclined to consume a larger number of products under certain income levels, such as the use of more expensive drugs, the use of more advanced equipment for diagnosis and treatment, and extended hospital stays. Specific performance is the person that has medical treatment insurance takes great treatment for minor disease, and prolongs the inpatient day.

C. *The moral hazard of the supplier*

Due to the asymmetric information between doctors and patients, doctors have the ability to induce the needs of patients to a certain extent, making them consume more than the desired amount of medical and health services, that is, the medical supply creates medical demand (supplier-induced-demand, SID). SID in the medical field in China also exists widely. For example, the proportion of hospitalizations per 100 emergency and outpatient clinics in China increased from 3.0 in 2000 to 3.8 in 2005. Because the cost of hospitalization is higher than the cost of outpatients, doctors tend to induce patients to be hospitalized.

The essence of SID is the opportunistic tendency of doctors to act as imperfect agents in the market for health care services with highly asymmetric information. This moral hazard is exacerbated especially by inappropriate systems. In addition, the uncertainty of the effect of disease treatment will also affect the supply of products. At present, the risk sharing market caused by the uncertainty of disease occurrence in China is lacking, and the "inversion of evidence" in medical disputes exposes greater risks to the doctors. In order to reduce the risk and avoid civil lawsuits, doctors will add various examination items to clear the diagnosis and reduce the rate of misdiagnosis. This self-defense medical treatment also objectively led to an increase in the consumption of medical and health services.

In terms of the number of medical disputes nationwide in recent years, a survey of 326 hospitals across the country by the Chinese Hospital Management Association in 2000 showed that the incidence of medical disputes was as high as 98.4%. The analysis of the data from the survey results of 270 hospitals at all levels shows that: 73.33% of the hospitals have experienced violent behavior (including beatings, threats, and abuses of medical staff) by the patients; 59.63% of the hospitals had been besieged by patients and threatened the personal safety of the President; 61.48% of the patients' families had laid wreaths, set mourning halls and burned paper in the hospital; and 76.67% of the hospitals had the cases that patients refused to leave the hospital and did not pay the hospitalization fees [3]. According to statistics from the Ministry of Health, the incidence of medical disputes in medical institutions in China has reached 98.47%. There are more than one million medical disputes in the country each year. The average number of medical disputes per medical institution is about 40. More than 90% of the medical institutions have experienced siege and smashing incidents of varying degrees. Especially in the past two years, the incidence of medical disputes has increased significantly, with a growth rate of more than 100% [4]. It believes that medical disputes have brought tremendous pressure to social harmony and become an important factor of social instability. Based on this analysis, the following conclusions are drawn.

IV. THE CHARACTERISTICS OF MEDICAL DISPUTES

A. *Professionalism of medical disputes*

Medicine is a combination of professional science and empirical science. There are still many difficulties in how specific physicians can control individual differences caused by individual factors in the treatment of specific patients. The limitations of medical science are obvious, and a large number of medical problems cannot be solved. The settlement of medical disputes is more difficult than the settlement of general civil disputes.

B. *The frequent occurrence of medical disputes*

The patient's requirements for medical services and expectations for diagnosis and care are getting higher and higher. If the patient's expectations are not reached, even if there is no fault in the medical behavior, the patient will

think that the consequences of poor diagnosis and treatment are caused by the doctor.

C. The information held by the parties to the medical dispute is not equal

In the medical process, the patients can choose medical services and methods. However, they lack the ability to select and participate in fact due to lack of relevant knowledge. Due to their professional knowledge and technical means, medical institutions usually have relevant evidence materials. Although the law inverts the burden of proof of the patient in the lawsuit, this does not fundamentally change the status of the patient's relatively weak position in the dispute resolution process [5].

V. NEW FEATURES OF MEDICAL DISPUTES

A. The number is increasing year by year

There are many medical complaints, medical technical appraisals, and disability appraisals. At the same time, the participation of the news media has also increased.

B. Increase in the number of court losses

The "Inversion of Burden of Proof" adopted by the new "Regulations on Handling Medical Accidents" has increased the number of cases where hospitals cannot provide evidence.

C. Increased compensation

The final result of a medical dispute is often a request for financial compensation to the hospital. As long as there are disadvantages to the hospital, especially when there is no evidence, patients and family members will make a loud noise and ask for compensation.

D. Increased processing difficulties

The causes of most medical accidents and medical disputes are complex, the relevant laws and regulations are not yet complete, and all sectors of society generally think that patients are vulnerable groups and should be given special protection. It is very difficult to handle them.

E. Increased social impact

In particular, some medical accidents and medical disputes have repeatedly complained to the health administrative department, judicial department and relevant media because of the high claims of patients. Due to the lack of medical knowledge, unknown facts, and blind speculation, the hospital's reputation greatly damaged.

VI. COUNTERMEASURES FOR SOLVING THE EXCESSIVE INCREASE OF MEDICAL AND HEALTH COSTS IN CHINA

Health expenditure is a combination of price and quantity. From the above analysis, it can see that both have an inherent tendency to increase with time. The control of health expenses does not consist in simply controlling the price of an input. In the case of charging according to service items

and the strong motivation and ability of doctors to induce demand, price control cannot effectively solve it. For example, the price of Chinese medicines has been reduced many times, but the people have not actually felt the effect of price reductions. Instead, some commonly used drugs with high quality and low price have no market and disappeared. In terms of disease diagnosis and treatment, the price of each individual diagnosis and treatment item is controlled, and the specific supply quantity lacks effective supervision.

The implementation of insurance not only affects the quantity of medical service demand, but also affects its true price to patients due to third-party payment. Effective institutional constraints should be set up to avoid moral hazard on both the supply and demand sides, such as controlling the moral hazard on the demand side from co-payment, threshold and capping lines, and compensation according to people or disease to reduce the induced demand of the supplier. While improving the level of medical security, the government should also strengthen health education and guide rational investment in health.

VII. CONCLUSION

In the health service market, due to the lack of information of consumers, there is obvious information asymmetry between the supply and demand sides. Consumers do not have enough information to make their own consumption choices. Patients' health service needs can only be determined by doctors after their examination, which leads to the passivity of patients' demand in the provision of health services. Since the provision of health services is related to the economic interests of doctors, doctors may recommend additional services to patients in the absence of knowledge about treatment. In reality, patients lack medical knowledge, and doctors are both consultants and service providers because of their own financial interests, so they can create additional demand, that is, suppliers create demand. It will be the main research direction in the future to study how to fundamentally curb the occurrence of induced demand.

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