The Indian Health System – Role of the state with regard to the provision and the financing of health care

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1. Introduction and scope of the analysis

The Indian health system is vast and uniquely diverse. Dominated by regional characteristics it comprises a public and a private sector of extreme magnitude, each of the two facing massive challenges. The providers of health services range...
from few tertiary care hospitals of international reputation to thousands of untrained practitioners and healers.

The excessively high proportion of out-of-pocket spending as a share of total spending of health (around 80%) is especially worrying, as about 80% of India’s population live close to a subsistence level. Nonetheless, India’s middle class, although only a small percentage in relative terms, counts 150 million people in absolute figures, thus representing a huge and rapidly growing market.¹

In all these respects the state plays a key role, be it as a producer of health services or as the rule setting power, regulating the present and shaping the future health system. Therefore, this study tries to critically assess the role of the state in the Indian health system, thereby focusing on the provision and financing of health care. The institutional setting takes priority in this analysis but to gain an understanding of the situation as a whole empirical data and qualitative assessments are given where appropriate. It has to be noted that such a high-level analysis is not capable of reflecting all issues worth consideration. It finds its limits especially in the significant inter-regional, urban – rural and poor – rich differences that can not be examined to a desirable extent.

In chapter 2 an economic theory is presented that gives guiding principles for the role a state should perform in shaping and running a working health system. Chapter 3 gives some general background information about the Indian health system and chapter 4 evaluates the role of the state with regard to the provision and financing of health care. Thereby, both the public and the private sector are thoroughly examined. Finally in chapter 5, the economic theory as outlined in chapter 2 will be applied considering especially three functions that the state has to fulfil in the following context: Ensuring the provision of health care, creating a positive regulatory environment for the private market and enabling people to purchase health services. A brief summary of key findings is presented in chapter 6.

2. Economic theory

Empirical studies and some economic theories indicate the need for a strong commitment of the state in the health sector. However, experience shows that inappropriate public intervention has negative effects and therefore the quality of public action is of utmost importance.² Once it has been decided, as it is the case in India, that the state should ensure provision of certain goods or services³, the

³ Although this decision is of high importance a discussion of this issue has been omitted, because it is beyond the scope of this study. For more information cf. Schüller (2002), p. 172 and with regard to the health sector cf. Breyer / Zweifel / Kifmann (2005), pp. 175 – 183 and Zerth
Furthermore, in the present system there is no alleviation of the burden of out-of-pocket payments that a patient hardly can avoid. The liberalisation of the private insurance system is a step in the right direction but will reach only a limited number of Indian citizens, as most of them live close to the subsistence level and therefore are not able to afford risk adjusted premium rates.\textsuperscript{111} Taking into account the constitutional obligation to ensure access to health services, the state must tackle these financing issues to sustain the status quo as well as in the case of reforms concerning public production of health services. People must be enabled (e.g. by public subsidies) to purchase insurance provided by private companies. Besides realising their social function, the most important task of the public authorities will be to shape a robust institutional framework for such a market.\textsuperscript{112}

6. Conclusion

The purpose of this study was to evaluate the role of the Indian state with regard to the provision and financing of health care. For this reason economic theory was outlined and, after a comprehensive presentation of relevant facts concerning India’s health system, it was applied to the current situation. Thereby it can be concluded that the status quo has never been satisfactory up to the present day and that it will not be sustainable in the future. First, the state as producer of health services does not meet the needs of the population and is characterised by inefficiencies. Second, as a regulator of the private health market the state fails basic requirements in the same way as it does with regard to enabling people to purchase health services and reducing the risk of out-of-pocket payments.

However, there is a number of examples that suggest a movement towards reforms that may help to improve the situation, e.g. the extension of the Consumer Protection Act or the liberalisation of the insurance market. Furthermore, India has all the necessary medical and organisational competence, be it through its renowned universities or enterprises, so that in cooperation with international organisations also ambitious plans can be tackled. Thereby India’s sizable middle class will play a key role in attracting foreign investments as it can be already observed in the insurance sector.


\textsuperscript{112} Cf. Zerth (2005), pp. 74 et seq. It has to be recognised that such reforms in a health system cause problems that can be compared to those of transition economies; cf. Oberender / Fleischmann (2005), p. 1, for a deeper understanding of the tasks a state has to perform in such a situation and of the requirements that have to be met for being successful see l.c. pp. 1 – 19.