

BOOK REVIEWS

Health Care Challenges In Eastern Europe

BY ARMIN H. FIDLER

Welfare, Choice, and Solidarity in Transition: Reforming the Health Sector in Eastern Europe

by Janos Kornai and Karen Eggleston
(Cambridge: Cambridge University Press, 2001), 365 pp., \$69.95 (cloth), \$24.95 (paper)

This is an unusual book. Most publications on the topic of health reform address the sector's challenges in a highly technical and fragmented way, focusing only on certain aspects of the problem. This book, however, by Harvard economist Janos Kornai and Karen Eggleston of Tufts University, takes a broad approach to health care analysis. The work stakes out a philosophical framework, draws from the region's political and historical context, and cross-references relevant lessons from the Organization for Economic Cooperation and Development (OECD). The authors' intrinsic knowledge of the political economy of transition countries, their profound understanding of the historic context of the region, and their comprehensive approach to this rather complex topic make the work especially valuable for decisionmakers and opinion leaders in Eastern Europe. In this context, the book fills a considerable void. The book clearly benefits from Kornai's first-hand experience with socialism and the forces of transition that continue to transform Eastern Europe's former communist societies.

Notwithstanding the scope of the topic and the large volume of materials covered, the

authors are by no means agnostic about their personal preferences when it comes to reform options for transition countries. Despite tendencies in Eastern Europe either to embrace an aggressive market approach in welfare economics or, at the other extreme, to yearn for the return of state control "from cradle to grave," Kornai and Eggleston propose a rather measured third way. They settle for maintaining a system of social solidarity. At the same time, they introduce the concepts of personal responsibility, consumer choice, and state-regulated market forces and the trade-offs involved in these approaches.

The book begins by establishing nine general principles of reform. These constitute the philosophical and ethical dimensions of trade-offs in health care and rationing of scarce resources in light of ever-rising demand. These principles ultimately guide the authors' choice of reform recommendations. Kornai and Eggleston underscore the *sovereignty of the individual*, suggesting a reduction of the power and scope of a paternalistic state. The value of *solidarity* as an implicit social contract that postulates cross-subsidization from the rich to the poor and from the healthy to the sick is one of the principles retained from European labor movements, the Bismarckian concept of social insurance, and a few decades of socialism. But the authors also stipulate *competition* as a principle, perhaps less so for economic and efficiency reasons than out of a strong aversion to state-controlled monopolies.

Another principle guiding Kornai and Eggleston's reform options is an incentive for *efficiency*, interpreted here as achieving pluralistic (public/private) ownership of health service production. The principle that proposes a new role for the state departs from the notion of the state as the sole financier and producer of health services, envisioning it instead as a guarantor of a functioning legal and

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regulatory framework in which the health sector would be embedded. The authors also are concerned with the notion of *transparency*, which governs the state's power to raise tax revenues for the health sector and to allocate such scarce resources according to democratic principles.

The authors are mindful of the *time requirements* for reform, advocating *harmonious growth* of both welfare spending and economic development by abdicating the Reaganesque concepts of the primacy of economic growth and trickle-down fetishes. Finally, they recognize the need for *sustainable financing* of the state's contributions for welfare programs generally and health financing specifically—as there is ample evidence in Eastern Europe that lack of fiscal discipline leads to an unsustainable cycle of large deficits followed

by state bailouts. The authors make the point that their nine principles encapsulate the philosophical and political fundamentals for their proposals but firmly resist being labeled either liberal or conservative, right wing or left wing. In fact, this school of thought connects this work to mainstream Western European health care markets, rooted in the principles of capitalism but with a strong social conscience.

Kornai and Eggleston dedicate three early chapters to general features of the health sector, some international experiences in health-sector reform, and the status quo of the health sector in Eastern Europe. The first part of the book also addresses the inherent problem of cost escalation in OECD health care systems. The authors rightly attribute part of this cost explosion to rapidly changing technology and consumers' and providers' demands for ever more "high-tech" solutions in health care. However, they also attribute rising costs to the wider availability of insurance. This is one area with which I tend to disagree. While the analysis may be accurate for the U.S. version of indemnity insurance and third-party pay-

ers, it would not necessarily apply to single-payer models (such as in the United Kingdom) or social insurance systems (such as in Germany). Particularly in the social insurance market, the sickness funds exercise cost-control functions as purchasers of services in addition to monitoring their quality and patients' access. (The same functions are exercised by U.S.-style health maintenance organizations [HMOs] and/or large purchasers of health services.)

The second part of the book proposes specific guidelines for health-sector reform in Eastern Europe. The authors have organized this part by first examining the demand side for health care, followed by the supply side, and finally the interaction of the two. On the demand side Kornai and Eggleston envision a publicly financed and state-guaranteed

basic package of services. Such a package could be enhanced by consumers' purchasing supplementary insurance provided by a free (albeit strongly regulated) market. This is an attractive concept that is being implemented in several countries and supported by the World Bank.

But the evidence of a decade of experimentation in the region and elsewhere shows that the devil is in the details: The definition of an explicit service package seems elusive and appears to be a considerable political liability for reform-minded governments. It has been relatively easy to identify and exclude the "usual suspects" such as cosmetic surgery, experimental treatments, and even basic dentistry. But any further reductions in the package are technically cumbersome and politically challenging, often resulting in watered-down solutions. Too often, policymakers throw in the towel and bow to political pressure.

The matter is further complicated by the fact that doctors usually resist acting as accomplices in rationing (this year in Austria, for instance, the attempt to introduce higher copayments for nonemergency hospital out-

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patient services had to be withdrawn, following the resistance of doctors who did not want to be arbiters of what defines an emergency). In this context, the book fails to examine other means of rationing and cost control, such as restricting the availability of technology (a Canadian approach) or regulating the supply of doctors and hospitals (such as in Austria and France). I also have my doubts that democratic decision making and transparent resource allocation alone will entice constituents and stakeholders to buy in to rationing. The authors postulate that if such transparency were accomplished, taxpayers would be willing to foot the bill for any increased demand for a higher level of service.

The book advocates the establishment of supplementary insurance markets. The authors wonder why such a market has not yet taken hold in most of Eastern Europe. The answer appears to have both a demand- and a supply-side dimension: Private insurers want a piece of the entire health insurance pie and are lobbying policymakers to introduce a lucrative private health insurance market. On the other hand, there is little consumer demand for supplementary insurance (requiring regular premium payments) in an environment where a reasonable under-the-table payment gets you the same level of service in case you need it (without monthly premiums).

One area that is missing is a discussion of the state's responsibilities for public health. Public health interventions such as the cost-effective prevention of disease, premature death, or disability generate positive externalities for society. Because there is less demand for preventive and population-based services than for individual curative health care, the state must assume a special responsibility to provide such services as an integral part of any health care system. This is particularly important, as the sanitary-epidemiological services functioning during socialism in Eastern Europe have crumbled and were not modernized during the transition. In fact, an outdated public health paradigm paired with an obsessive bias toward high-end clinical services may be the weakest link in the health services

chain in Eastern Europe today.

The authors rightly acknowledge the need for a facilitating environment to be in place before many of the proposed reforms can take hold and become sustainable. Evidence demonstrates that Eastern European policymakers quickly rushed to introduce a number of concepts that were proven in OECD countries but were ill suited for transition economies. The book identifies the need for the state's institutions to have the capacity to regulate and monitor the health sector. A public health system must enable the state to deal with epidemiological emergencies, to set purchasing priorities for health financiers, and to supervise quality standards. A functioning judicial system is required to enforce legal action and the rule of law. Often forgotten is the role of a free and informed press, a crucial consumer advocate and information tool.

Kornai and Eggleston have gone beyond simply writing about health reform—in fact, they have created a new framework of how to think about health reform in Eastern Europe. They have shown us the importance of going beyond purely technical deliberations by focusing most of their analysis on the facilitating environment for reform. This is particularly important for transition economies in the context of high expectations, economic decline, low institutional capacity, and often corrupt public service. In earlier publications Kornai demonstrated to his readers how, even after the collapse of socialism, some fragments of it have survived in the public sector. It is this evidence that reminds us that any successful reformer must have, in addition to his technical tool kit, an understanding of the idiosyncrasies of the country and the political mapping of stakeholders. This book succeeds in dissecting many of these issues and gives the reader a number of provocative insights into the health care challenges of the coming decade in Eastern Europe.