

INFORMAL HEALTH ECONOMICS IN UKRAINE

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INTRODUCTION. The prophylactics and health promotion in Ukraine is particularly topical issues. In 2013 Ukraine ranks 78 place from 186 countries according to United Nations Human Development Index scoring. [1] While education HDI components take the country forward, life expectancy at birth, in contrary, takes it backwards (78 place, the penultimate one in Europe). High morbidity motivates Ukrainian scientists and managers to look for ways to improve public health. In the four pilot regions the restructuring is conducted for the benefit of primary care and family medicine, like the European reforms. However, the focus is on cost savings, but effectiveness suffers and mortality remains high in far-off areas due to imperfect infrastructure. And the main thing is the reform weak guarantees the constitutional principle of equal access to health services for all citizens, because there are obstacles of otherwise order. Point is that, side by side with the legal sector there is a significant part of the shadow, the informal health economics. The purpose of this article is to disclose its content and causes in Ukraine.

METHODS. The methods of analysis and synthesis, deduction and induction, the correlation of the quantitative and qualitative changes, and science abstraction allow us to treat the health informal economics as a derivative of the entire shadow economy at the macro-level. According to various estimates, its volume approximately equal to the official economy of Ukraine. Shadow economy, including health care, includes two segments. The first one represents illegal services of criminal origin – narcotic drug business, unnatural child birth; abortions in those countries where they are prohibited by legislation; a reserve of person's body organs with the purpose of their next usage in transplantation; use of embryonic tissues in cosmetology, the presence of virtual sick persons who appropriate funds for food and medical treatment etc. It is called a "black" market. The second segment is informal, hidden from the tax economics (grey market). In this case medical services are not criminal by nature and do not contradict to legislation. But the incomes from their sale are tax-free and they are not fixed in statistical reporting. So they can't be controlled in whole. The informal economics of Ukraine is not only in the segment of private medicine, but also in public health. It is growing from year to year and is not just an analogue, but also a strong competitor for private medicine. Factor of competitiveness is the access of public physicians to budgetary resources, which reduces the opportunity cost of their labor using.

5 That's why informal sector in health care of Ukraine is expanding. And also the nature of the income assign-

BACKGROUND. In 2013 Ukraine ranks 78 place according to UN Human Development Index scoring. While education HDI components take the country forward, life expectancy at birth, in contrary, takes it backwards. The latter is due to violation of the constitutional right of Ukrainian citizens on equal access to health care.

GOAL. To analyze the main reason of this situation – stream widespread of the informal payments for medical care and shadow health economics as a whole.

MATERIAL AND METHODS. UN, State Statistics Service and National Bank of Ukraine statistical data.

RESULTS. Provision of medical services in the state health care in exchange for payments by patients (informal economics or "gray" market) is a part of the shadow economics in Ukraine. Its external causes – monopoly of the multinational pharmaceutical corporations in the world economy, their pressure on the national market and behavior of physicians, globalization and offshore. Internal reasons – use of public resources for big business purposes, high rate of shadow schemes in national economy and health system, low level of health financing and salaries of medical workers.

Informal health economics entails significant costs: productive – used public resources and time for private goals of physicians; transaction – increases the asymmetry of information about the quality of medical care, social – forms in the public sector quasiprivate market for medical services with all its negative externalities.

CONCLUSIONS. In order to reduce informal health economics in Ukraine it is necessary to: abandon the oligarchic model of the national economy, improve the tender legislation and eliminate corruption in the purchase of medicines and equipment, substantially increase health care financing and restructuring, create an independent judicial system for protecting patients' rights, introduce compulsory social health insurance, support non-profit medical associations.

Keywords: shadow economics, informal health economics, "gray" market, health care financing.

ment is changing. When at the end of the 1990s incomes dentists and profile specialists in hospitals broke away from others, they nevertheless had a labor nature. In course of time another "type" of economic relations between patients and physicians spreads, through intermediaries - diagnostic laboratories and chemist's shop. Typically, these doctors either make diagnoses with help of expensive clinical tests (immunologists, endocrinologists, allergists), or use expensive medicines (reanimatologists) and receive a part of their value. This income is often parasitic; it completely come off labor base and acquires a veiled form. In fact it is - a form of economic status of a physician as an agent where the patient has delegated its confidence. The condition for the creation and appropriation of income is nothing but the asymmetry of information about the necessity and quality treatment which is the brightest feature of the medical services market. Besides doctors, extra incomes are received by those who work closely with pharmaceutical companies, especially chief medical officers, heads of departments, professors.

RESULTS. Paradoxical but the informal economics has some benefits. It compensates partly for inadequate funding of public health, which is in Ukraine around 3.5% of GDP. Doctors spent part of their incomes on repairs, purchase of some equipment, medicines, and bandages.

That shadow economy performs original investment role of irrational type under scarce public resources. →

It's actors invent that way of economic relations through which significant disproportions in the medical labour market, and barriers to access them, as well as some structural, technological and organizational costs are eliminated. Sometimes informal interaction between managers and health care providers reduce bureaucracy, improve management and facilitate faster adoption of required medical decisions. In budget deficit, informal incomes help to redistribute money received by physicians from solvent patients to those who need in medical care but can't afford it. In addition, they act as co-payments for services that constrain the situation of "moral hazard" when the patient, knowing that the state pays for it, without a measure use by health services and increased unproductive costs on health care. Finally, informal incomes constrain migration of Ukrainian specialists abroad.

But in general, informal payments and the shadow economy entail various defects. The reforms are losing their meaning; the content of restructuring in health care is distorted. Hospital sector is being reduced officially, but actually complemented by informal economy of medical labor supply. This is typical for large cities in Ukraine, but the regions are affected. In remote towns and villages (with bad roads for ambulance service) small hospitals are being intensively reduced, leading to outbreaks of discontent. Family physicians are sorely lacking, there are many retirees among employees. All attempts to stimulate young professionals work only partially: high official salary of doctors is less than informal incomes in the shadow economy of health care.

Development of uncontrolled health care leads to the loss of public control over the quantity and quality of medical services (compulsory social health insurance in Ukraine is also absent). Asymmetry of information to patients is increasing, that is their transaction costs is growing. The opportunities for organized crime in medicine are appearing. Doctors use public resources in the name of private incomes, as well as the time that must be worked according law for the public medicine. This leads to an increase in production costs. Under public property quasiprivate market of medical services is forming, with all its "failures", and the role of the state is reducing to zero, but social costs is growing. The citizens do not receive the necessary medical care. According to the investigation of the Kiev International Institute of Sociology, conducted in 2012, over 50% of Ukrainians can not call themselves healthy [2].

DISCUSSION. In the debate about the causes of the informal payments dominates the view about low salaries of physicians. Indeed, according to data of State Statistics Service of Ukraine, the average salary of full-time employees in industry by September 2013 amounted to 3784 UAH, in transport – 3596 UAH., government administration and defense – 3591 UAH, in financial and insurance sector – 6045 UAH., while the health care – 2362 UAH., that respectively amounted to 116%, 110,3 %, 110,1%, 185,4 %, 74,2% of the average level in the economy [3]. Anesthesiologist of highest category, having a degree of candidate of medical sciences, as well as an experienced emergency doctor may receive as much as a supermarket security guard or janitor at a prestigious hotel. Salaries of doctors not only scarce, but also poorly

differentiated depending on the volume and quality of work. Logical that medical professionals are gradually formed other motivation to labor than following the Hippocratic oath.

However, it would be wrong to reduce the problem only to low wages. In our view, there are more profound internal and external causes. External related to globalization of the world economy and the monopolization of the pharmaceutical market by largest multi-companies. Monopoly leads to an increase in medicines prices, which enhanced by aggressive marketing and low elasticity of demand. Let us say the rate of return on investment is more than twice the USA average [4]. For the Ukrainian market threats and risks are that imported medicines dominated (in 2012 their share was more than 70% of all sales), as well as a number of intermediaries in the sale is growing, mainly in offshore. Excessive prices for pharmaceuticals (or Equipment) absorbs from the meager resources of the health budget, reducing the sources to pay physicians.

Moreover, the result of pharmaceutical multinationals is importing formal and informal rules of economic behavior. They spread to the Ukrainian pharmaceutical business, and then - on the economic behavior of doctors who fall in reliance on it. Globalization encourages corruption to some extent, because its condition is the free movement of capital, the increase in international agreements. Too fast way Ukraine from a closed to an open economy is a catalyst for these processes. Commission payments, fees for consulting, entertainment expenses paid by multinationals, organization at its expense conferences, and even ordinary presents are considered by law of many countries as "objective" costs in poorer countries.

A key internal reason for the shadow health economy is the gradual formation, since 1990, clan-oligarchic model of the national economy of Ukraine. Unlike many European countries, big business in Ukraine is firmly connected to the power, because the greatest profits it receives from the allocation and reallocation of public resources and rent-seeking from minerals, land, gifts of nature. Therefore, the Parliament makes laws with an eye to the interests of the leading financial and industrial groups that receive profits and using shadow schemes pumping a money abroad. According to data of State Statistics Service of Ukraine, 2012 the dominating shares of direct investments from Ukraine (in average 92,14 %), falls on Cyprus (i.e. tax-free zone). For 9 month of 2013 r. this figure was 88, 6 %, or 6.6 billion U.S. dollars billion U.S. dollars [5] It is only slightly less than the total budget for health care in 2012 (55.2 billion UAH, or 6.91 billion US dollars). And officially produced GDP, which is the basis for the calculation of the expenditures on health care in the country, is much lower than the total of the product made in Ukraine, including the "gray" market. At the same time, Ukraine took 27th place in the world by number of billionaires with own assets worth at least \$ 1 billion [6].

Leading actors of the half-shadow Ukrainian business is also spreading the informal rules of economic behavior from the top to down, like the foreign pharmaceutical companies. Unfortunately, the amendments to the Law № 5044-VI from 08.04.2012 take out of the control much of procurements in the public sector, which stimulates the growth of the shadow economy.

A significant dependence of judicial power from the executive one also contributes to this. Shadow economy of tender contracts in health care generates reimbursement to the buyer part of the cost of drugs purchased for providing undue advantages for seller or overvaluation. This is the most typical crime in the medical field. The competition among the participants in this tender is absent, because of nontransparent market. In fact, this market structure is an oligopoly because only about 5 pharmaceutical companies are admitted for tenders who have collusion, including with regulatory organizations. Frequently importers indicate one price in the customs declaration but sell medicines at a different price. Sometimes imported medications are with fewer growth utility than the increase in prices. Corruption in upper stages of the power pyramid encourages state employees to act according to the laws of the business.

Hence, the low salary of physicians is not only the arithmetic result of the low health funding. Rather, many recipients of informal incomes (the bureaucracy, the pharmaceutical companies, drugstores, and other institutions of infrastructure) are concerned in it. They are satisfied some coherence, persistent links in the "gray" market, information asymmetry, additional procedures with expensive drugs using, tests and technologies that attract patients for their originality and bring the considerable incomes to performers. To offer them the greater advantages in the reform process is very difficult. That's why the increase of budget expenditures on health care from 1999 to 2012 does not reduce the informal economics. It is also one of the reasons why in recent years the Parliament of Ukraine is not adopted none of the several proposed draft laws to implement compulsory social health insurance: it is still missing in Ukraine. As for voluntary health insurance, it is not sufficiently developed. The obstacle is the low purchasing power of the people and monopoly. Low salaries of physicians and informal incomes are also a convenient tool of administrative resources use in the budget sector.

In developed countries, the significant control of the health care and behavior of physicians are engaged by non-profit non-governmental organizations. In Ukraine, formally they also exist: in 2012 there were 2,780 NGOs legalized by the Ministry of Justice and 82,707 associations legalized by local authorities. The largest proportion (16.6%) fell on health and sports associations. [7] However, in general third sector is underdeveloped because there are no financial support from the state and adequate development of the civil society. Our NGOs usually operate in the spirit of paternalism for joint solution of painful problems (Chernobyl organizations, parents of sick children, disabled). They appear before the authorities as supplicants, which are very similar to the public hospitals. They have a small window of opportunities, depends on politi-

cal factors, stakeholder pressure, ideological and political passions sponsors. They are drawn into the shadow economy. Trade unions, including medical, remain a peculiar structure of power and play a decorative role. Little deputies in the parliament lobby medicine. The election campaign in 2012 shows that 293 conventionally unemployed and 1082 businessman out of 3,109 candidates from parliamentary majority districts are balloting. [8]

Thus, the informal economy of health care taken the deep roots, and simplified methods for its legalization are unlikely to work. Even if we suppose a high rate of the growth of salary physicians, the problem is likely to persist for a long time. The algorithm of the reforms consists in eliminating all the conditions and causes of informal rules of physician's behavior, from primary to secondary. Required political decisions on the top level, a favorable investment climate in the country, as well as improving of the tender legislation, increasing transparency of the pharmaceutical market, the creation of independent judicial institutions. It's important a specification of property rights in health care (effective private sector is a competitor to the shadow medicine in the public sector), the development of public-private partnership. After these transformations the tangible (in several times) increase of the health workers salaries should more quickly affect their motivation to work in a legal way. The main condition of the effects of non-profit institutions to reduce the shadow economy's health is the gradual democratization of society.

Discussion questions remain about the effectiveness of the mandatory health insurance and the restructuring of medicine under conditions the shadow economy. The socio-economic approach is to measure the costs and benefits. Benefits are that insurance companies are forced to monitor physicians in accordance with the protocols, risks – they can join to the informal relations with physicians. Restructuring of health care is needed, as it supports primary health care and prevention and reducing costly hospital sector, in which informal relationships of physicians and patients are the most common. But on the other hand, there is a danger of family doctors being drawn in the shadow scheme of payments with specialists, local authorities and patients. Debatable is the question of industry-sponsored medicine, which in Ukraine occupies a big place, duplicating the medical services, but there the informal relations are developed less. And finally, propriety of the fee-paid medical education in the public universities under conditions spread of poverty and underdeveloped credit system is also controversial, as the cost of training is paid off very slowly at the current level of the salaries of doctors.

List of abbreviations: UAH - Ukrainian national currency; GDP – gross domestic product.

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