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<th>Research for Medical Inflation Mechanism in China</th>
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<td>An Increase in Patient Copayment that Medical Care Reform and the Technological Progress Invited.</td>
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China's economic reform launched in 1979 has transformed her social regime fundamentally. In the process, new health insurance system was introduced to the urban residents. The words to described it was "wide and thin", meaning the new system was designed to meet the basic medical needs for maximum number of the population, thus set a cap on expenses covered. If a patient needs higher medical services and the bill exceeds health insurance benefit ceiling, he must seek the solution through market mechanism, implying that he is left to purchase health insurance policy from private companies or to pay on his own. The new system enabled the state to pass its burden to the individuals and that triggered patients' self-pay to escalate.

Due to this reason, runaway cost of health care became a big social issue. As for the medical cost increase itself caused by the medical administration reform, there are a lot of reports in recent years that point out the issue from patients' side, telling the difficulties to undergo medical treatments.

This thesis rather sets eyes on the supply side of medical service. Focuses are on medical service reform, the technological progress and the medical inflation mechanism. The paper will analyze in particular how the past medical institution, which was rooted in planned economy, influence present medical suppliers. At the same time, special note will be taken on issues of restrictive redistribution effect of health insurance and aging population, atypical problem in developing countries.

The purpose of this thesis is to clarify the reason why the medical treatment expense in China soars during the economic reform. The author discovered that the following situations were the cause for the puzzle.

Despite the fact that urban residents are indeed covered by the new health insurance system, it also allowed the self-load ratio to rise when consulting a physician, since the amount of the health insurances benefit is capped. Additionally, there are severe in the medicine and the method of treatment supplied from health insurance. Therefore, further to the burden of self-load ratio, part that exceeds the amount of payment limit, or when non approved medicine or treatment method are selected, medical insurance is not applied and the patient is expected to pay for the full amount.
Moreover, the market mechanism has played a significant role in the new medical care system. Medical treatment not listed on insurance coverage can be done in the various non-public medical institutions, such as private hospitals, just to give an example. Public medical institutions also can freely do the mixture diagnosis and treatment that combines insurance and self-payment by the patients.

These are the two main factors that caused patients' load increase. However, other minor problems also attribute to the above issue. For instance, the low participation rate to new public health insurance. Without this insurance, the patient must pay a full amount of treatment cost on his own, thus keeping him away from consulting a physician. Moreover, the government had reduced subventions from public finance toward medical institutions as they shift to the independent profit entities. Then, these institutions are now devoting their energy to make profit and improve their business.

In addition, there is an impact from the graying of the population, too. Aging progresses rapidly and total amount of the medical treatment have expanded in China as well as Japan. However, the insurance finance is a surplus at present. Unlike Japan, aging had not caused the stringency of the health insurance finance. The reason behind this is simply that medicines and treatment measures that are not covered by insurance are paid by the patients. The problem of medical inflation becomes serious for the elderly person who gets the chronic ailment and critical illness easily.

In order to solve difficulties regarding such medical payments, author considers enhancing the redistribution function of health insurance is both realistic and effective. It will reduce an individual's load by expanding the insurance benefit. However, under the current system, broadening of insurance benefit will immediately deplete the fund, because at present, only the employee and the enterprise had contributed insurance premium. Therefore, author suggests both the government and the retiree to pay premium so as to secure the fund's financial balance.

There is no assistance from public finance for the present health insurance aside from the management expenditure. Moreover, the individual's contribution is only 2% of one's salary, whereas the load of the enterprise becomes 10% or more of its' total wage. The retired person need not bear insurance premium. The redistribution function of present health insurance relies on enterprise to bear the heavy load.

The author recommends financial support from public budget to health insurance fund and increase individuals' premium rate, along with collecting the premium from the retiree. In return, this will expand the health insurance benefit, but reducing patient's copayment. If assistance from finance is difficult, policy makers may admit health insurance treatment in the private hospital.

Under the present situation, public medical institutions monopolize medical service. Therefore, admitting health insurance treatment in private medical institutions would reduce the fiscal subsidies to public medical institutions, allowing additional fiscal support to medical insurance.