

“SOUTH AFRICA IS IN THE EARLY STAGES OF IMPLEMENTING A NATIONAL HEALTH INSURANCE. IS THIS AFFORDABLE? GIVEN THE FISCAL CONSTRAINTS FACING THE COUNTRY, WHAT IS THE MOST APPROPRIATE FUNDING MODEL FOR THE NHI?”

(3546 Words)

1. INTRODUCTION

According to the policy paper by the South African Department of Health, the National Health Insurance is an initiative which will ensure that all South Africans have access to appropriate, efficient and quality health services (Department of Health, 2011). The intention of the national health insurance is to address the status quo in the health sector of inequalities presented by the private and public health systems that exist in South Africa. It is important to state that health care, like education, is a public good. The general situation in South Africa is that the current health system is believed to be inefficient by the government who propose the National Health Insurance. That is the main driver of the National Health Insurance.

The Department of Health states that the private sector caters for 16% of the population, whilst the public sector caters for the rest of the population (Health24, 2016). Similarly, the Department furthermore states that 80% of the countries medical specialists cater for the same 16% of South Africans under private health services (Page, 2015). Furthermore, South Africa's Human Development Index indicates a short life expectancy in South Africa, amongst other detrimental facts such as infant mortality rates, HIV/Aids, etc. This presents the social dilemma presented by the Health department which does indicate inefficiency in the dual system present in South Africa. However, the critics of the programme present key arguments such as the way and manner in which the National Health Insurance will be funded, the current fiscal crisis in South Africa, how it will be implemented and the question of corruption, as well as the skills drainage that will be caused by the National Health Insurance should it be accepted and implemented in South Africa.

The structure of this essay will be as follows, firstly the fiscal constraints facing the country, secondly the proposed and appropriate funding models in South Africa, thirdly a general discussion on the implications of the National Health Insurance, both positive and negative, and the political economy which is the views of other political parties, and finally a comparison of the various sub-headings to other countries. The hypothesis is that the National Health Insurance in a necessary policy by government, however, given the claimed "incapacity" of the government in South Africa which can compromise affordability, the National Health Insurance Scheme would require careful planning and effective implementation, an independent board, with little government interference with the day-to-day functioning of the fund. To support this hypothesis, it is important to show that an independent board is implementable in South Africa, that the fiscal constraints being faced in South African can be overcome, and ultimately prove that it is in the national interest to implement the National Health Insurance.

2. FISCAL CONSTRAINTS

The argument around the fiscal constraints primarily revolve around the argument between the orthodox (Classical) view of economics and the heterodox (Keynesian) view of economics. South Africa is currently facing a significant fiscal crisis. The orthodox view of economics argues for free markets and liberalized financial markets which allow for the best outcome of financial globalization. The heterodox view of economics argues for the opposite, seeing the need for stricter financial control and government intervention and policy. Therefore, the argument boils down to the way in which measures implemented by government complement these view points. The classical view would promote austerity measures and continue to support a privatized health sector.

2.1. Orthodox Economics

Government proposes to raise revenue for the national health insurance through an increase in value added tax, a compulsory pay roll levy, and and/or an income tax surcharge (Department of Health, 2011). This is in contrast to orthodox economics which argues for free markets and liberalized financial markets. Orthodox theory would suggest that the government play a minimalist role in the economy, and rather leave it to correct itself. This is because theory predicts that capital liberalization would have a positive impact on growth for emerging markets. However, an overhaul of the entire health care system is not a minimalist intervention. This action would not be accepted lightly by western organisations such as Ratings agencies, the World Trade Organization etc. These institutions promote financial globalization, and argue that for a country to develop it should follow the principles of financial globalization. Government intervention in this regard would stunt private health businesses which is in contrast to competitive practices and liberalized markets.

2.2. Heterodox Economics

In contradiction to fiscal consolidation and austerity, Forslund (2015) proposes alternatives. Although taxes will be discussed in length in section 3 under appropriate funding models, tax is the main policy tool that Forslund proposes as a way in which to raise revenue to “address South Africa’s socioeconomic reality”. Heterodox Economics would support this view, for government intervention to strengthen the South African economy. The situation in South Africa is such that extreme measures need to be taken in order to correct the current dualistic system which exists in South Africa. The socioeconomic reality in the health sector speaks volumes about the system as a whole. Too few South Africans have access to quality healthcare, and our quadruple health crisis, prevalent HIV/Aids, Tuberculosis, infant mortality rates, etc. The new system proposes introducing standard health insurance in South Africa, and all South Africans to face the same system in accessing healthcare. Its implementation is the heart of the conflict. This intervention in the form of increasing VAT, including a pay roll levy and/or a income tax surcharge. Heterodox economists believe in the principles of increasing aggregate demand in times of slow growth.

Considering that South Africa is in a time of extremely slow growth (GDP growth of 0,7%, 16/17) further supports this view. It would therefore be the post-Keynesians economists view that South African government should increase spending in order to boost aggregate demand. Keynes presents quantitative easing, which is the idea interest rates should be driven down to zero so that capital is free and abundant (Phelan, 2012), in order to euthanize the rentier, who earn interest at the expense of the majority of the population. This spending could be in the form of the R225billion proposed to be spent over the next 14 years on the National Health Insurance scheme. Phelan (2012) is highly critical of quantitative easing by calling it an assault on savings. He states that the results of quantitative easing have had the opposite effect of what they were intended in USA, Europe and Britain. He argues that the real savings of the economy shrink with falling interest rates. When people save, they save for future consumption. The prospect of the economy being able to afford the newly created goods and services in the future is low, thereby defeating the objective of building the healthcare system that people wont afford future consumption of. However, boosting aggregate demands aims to address structural issues, and the structural issue in this case is the dualistic health care system in South Africa. The second consideration is this money could be throwing good money after bad. The Department would need to prove that it can effectively implement this system. The current health care system is a system the Department has been failing to run, with many stories on Carte Blanche and main stream media about rampant corruption in the health department. The department of Finance runs the Public Investment Corporation (PIC) which is run by an indeendent board looking after R1,8 trillion in assets (PIC, 2016). The PIC is one of the good stories of management of public money, and a proposal such as the national health insurance scheme could be viable if the system is run in a manner similar to the PIC.

2.3. Addressing Fiscal Constraints

South Africa faces a harsh reality of an impending sovereign credit downgrading from various credit rating institutions around the world (Peyper, 2016). In June 2014 Standard & Poor downgraded South Africa (Knee, 2014), and in December 2015 Fitch downgraded South Africa (Maswanganyi, 2015). According to Masie (2016) If, and when, a sovereign nation is downgraded, this result in the cost of borrowing for the nation to increase, and the ease of access to debt is tightened, would put pressure on the rand and would put pressure on South Africa's ability to fund infrastructure projects. Many bond agencies are also required to hold certain level bonds ranging from investment grade to junk grade, with focus on those bonds that are less risky. Therefore, this is a key fiscal constraint. Investors would have to believe in the viability of the system, however, as pointed out, these ratings agencies and investors tend to promote for free, liberalized financial markets.

Against this backdrop, international ratings agencies operating from Washington advocate for certain economic conditions. These include fiscal prudence, cost-cutting and austerity in hard times, structural adjustment and policy reform. Therefore, given the two options, it seems plausible that South Africa is

not in the financial position to undertake such a project given its fiscal constraints. South Africa should maintain austerity and fiscal consolidation. It would be an opposite effect to what is envisioned should South Africa be downgraded, which would lead to an increase in the cost of borrowing, which is detrimental for South Africa at large in a slow growth economy which requires comfortable conditions for businesses to help grow the economy. South Africa should fix rampant corruption in state institutions such as the national, provincial and local departments of Health, with a focus on rebuilding structures with the available resources, and then tabling the National Health Insurance when its systems and processes have the capacity for it. The potential benefits are huge, these arise from positive externalities arising from a healthy and productive nation, and therefore under fiscal constraints, the policy has not been rejected in its entirety.

3. PROPOSED FUNDING MODELS

The funding model proposed by the National Health Insurance Green paper is that the possibilities of raising such funds lies in a compulsory pay roll levy for all employed South Africans, an increase in value added tax (VAT), and/or an income tax surcharge (Health24).

3.1. The Tax Problem

One of the arguments is that the South African tax payer is already overburdened. This means that South Africans are already feeling the pinch of high taxes and less disposable income. These come in the form of high inflation which breached the upper bound of 6% in January 2016 arising from a depreciating currency (Smith, 2016) and increasing food prices, particularly as a result of the drought, and petrol prices (van der Poel, 2016). Another argument is that few tax payers are carrying this burden, as only income earning South Africans can pay the pay roll levy and income tax surcharge, although almost all South Africans pay VAT.

Forslund (2015) states that VAT takes a larger share from the incomes of poorer households than from those with wealthy incomes. VAT is also said to be a regressive tax (Free Market Foundation, 2015). In an interview on SAFM (10/05/2016) one of the key arguments presented by the Minister of Health is that the burden will be felt by all South Africans and not just tax payers. The Minister stated that the ordinary South African pays VAT and therefore feels the tax burden of the increase in VAT in aid of the National Health Insurance scheme.

In his 2016 budget Minister Pravin Gordhan opted to increase capital gains taxes and transfer duty levies as opposed to increasing tax on income, thus focusing tax on taxing wealthy individuals. This suggests that the raising of taxes is a far more delicate instrument of raising revenues than meets the eye. Similarly, e-tolls in Gauteng have faced fierce backlash from the public and other stakeholders since its inception.

The arguments for the e-toll system put forward by government are similar to the Nation Health Insurance in that they are argued to be in the interests of society.

3.2. Bringing Tax Payers to Justice

Lastly, Forslund claims that individuals hiding outside the tax system could contribute an additional R37billion to tax revenue. This claim is supported by Robertson (2016) who states that an estimated 8% of the worlds wealth is located in tax havens. This is based on the Panama Papers scandal. This suggests that there are grounds for such a compelling statement by Forslund. The argument that the additional tax burden will be primarily felt by tax payers, and thus they will be overburdened is not a convincing argument. It is apparent that high earning individuals are undermining the tax system in South Africa through tax havens. The National Health Insurance is an important key to fixing the Health System in South Africa in principle. An effective and equitable health system should be a key agenda for all South Africans, the government, private sector, trade unions and civil society.

3.3. Appropriate Funding Model Proposition

The argument on the appropriate funding model boils down to the tax instruments used, the burden of the tax instruments, the so-called “left turn” in fiscal policy and the greater good argument. The use of VAT as an instrument to increase revenue is inappropriate, the use of VAT will be far more detrimental to society as a whole in the face of rising interest rates, rising food prices, and high inflation. The challenges are immediate challenges and the NHI is a long-term commitment, therefore the realization of its goals will only be in the long-term. The use of a pay-roll levy is an appropriate revenue raising instrument, provided the system is an effective one. This levy should be linked to the National Health Insurance Fund, and this should function the same manner as the Unemployment Insurance Fund by managing funds with bodies such as the Public Investment Corporation which has the capacity and skills to manage revenue raised via the NHI. The cost of the NHI’s implementation sit at R225billion over 14 years. The revenue for this is possible through government taking a stricter stance on tax avoidance and tax havens, this would potentially yield R37billion per year which would more than fund R225billion over 14 years.

4. IMPLICATIONS OF THE NATIONAL HEALTH INSURANCE

According to Health24 (2016) there are multiple implications for the National Health Insurance, key amongst these is the possible exodus of medical professionals from South Africa. This would be a detrimental impact of the NHI should its implementation result in the exodus of medical professionals. South Africa already has a significant shortage of medical professionals, and the exodus of these professionals would be a nail in the coffin rather than a step in the right direction for health care policy. However, the argument that NHI would lead to an exodus of medical professionals has little bearing as

there is no reason why doctors in the public system will not be fairly paid. South Africa needs to consider addressing the shortage of doctors overall by opening up more medical schools, Cuba has 22 medical schools and a population of 11 million people where South Africa only has 8 medical schools and a population of 50 million people (Ayo-Yusuf, 2015). This shows that there are suitable alternatives to NHI that will result in increasing the number of doctors in South Africa rather than decreasing them. A suitable policy could be making it compulsory for all medical professionals in the private sector to dedicate a set amount of hours to work in the public sector hospitals at reasonable pay, thus avoiding ordinary South Africans paying exuberant medical bills. It is critical that the public sector is exposed to all the services listed in the National Health Insurance White paper. This recommendation would require a feasibility study of its own.

5. COMPARISON TO OTHER COUNTRIES

The launch of the Universal Health Coverage in Cuba has similar founding principles as the National Health Insurance. Universal Health Coverage refers to financial reform extending insurance to a larger part of the country's population. The Universal Health Coverage programme, like South Africa's NHI, aims to provide equal services for its population without sections of the population being discriminated against based on an individual or family's financial resources. The proposal aims to uplift those sections of the populations who face "significant barriers to access to healthcare services, poor people, ethnic/racial minorities, or otherwise marginalized groups" (Waitzkin, 2015). This is similar to the approach in South Africa, however in South Africa the aim is to uplift the marginalized groups of the population who are in the majority in South Africa.

5.1. Cuba

Lamrani (2014) argues that The Universal Health Care system in Cuba is a model of success for the world. Cuba has realized the objectives of the Universal Health Care system and managed to extend its legacy to many countries and millions of people around the world (Lamrani, 2014). This is compounded by the fact that Cuba has had very limited resources followings it trade embargo from the US, and thus it has not been able to export its health professionals to the US. This may be a crucial ingredient to the recipe of success in Cuba's Universal Health Care programme. Over the past 50 years Cuba has not had access to Western medical professionals and practices and this has left Cuba with the task of managing its own health care system for the betterment of her people. Cuba has resisted adopting Neoclassical economics and rather adopted a socialist approach and maintained this even after the collapse of the Soviet Union. The Cuban health system has achieved some extraordinary results and Cuba compares to some of the worlds most developed nations in terms of infant mortality rates and life expectancy at lower costs than countries including the USA. According to Fitz (2011) Cuba spent only \$193 per capita on health care services as opposed to the USA which spent \$4540 in 2005. Therefore, this illustrates how

costs can be managed efficiently, and maybe the implementation of such a policy might not be as expensive as those who oppose the policy would have South Africans believe.

5.2. Canada

Canada seems to have a dismally performing Universal Health Insurance system, a sentiment shared by various stakeholders of what awaits should South Africa venture down this ambitious road. The Canadian Universal Health Insurance is riddled with efficiency issues arising from the waiting time from General Practitioner to Specialist to Treatment. According to Davie (2015) the average waiting time from GP to specialist to treatment is 18.2 weeks. This is a very serious indication of the results of having a government controlled health care system. Canada has a GDP per-capita of \$51 962,00 as well as a Gini coefficient of 0,44. This indicates a fairly rich country per person, and also indicates that there isn't a substantially high level of income inequality which makes it bizarre that a country such as Canada could have an ineffective and inefficient public health system. It is against this backdrop that South Africa should consider and investigate the challenges faced by Canada in the implementation of Universal Health Coverage. It would defeat the end purpose should South Africans be exposed to an even more inefficient health care system after the adopting of the National Health Insurance, this would exacerbate the problems faced by the public health sector today. However, Davie is biased towards a privatized health care system.

6. CONCLUSION

In conclusion, the following findings have been made. The first consideration is in regards to the fiscal constraints facing the country, it would not be in the interests of society to undertake a R225billion project. It would be advised that South Africa seek to address the inefficiencies in the public healthcare system such as rampant corruption, and address the skills shortage by building new medical schools and creating a conducive environment for health professionals to seek employment in the public healthcare system. Tax authorities should also seek to address the exodus of tax revenue from South Africa to tax havens, and once that has been resolved, a foundation of funding can be laid for NHI. The second consideration is in regards to the appropriate funding model. The raising of VAT is not an effective solution as it hurts that sector of the population, which the NHI seeks to help, the most. It would be more feasible to address the current inefficiencies, and also provide alternative solutions such as those proposed by Forslund. The third consideration is that South Africa is able to provide an independent board, this is based on the example of the PIC. South Africa has some credible public entities and an efficient fund like the PIC would be effective to manage such an insurance fund.. The last consideration is the skills drainage that could occur in the instance of private sector professionals moving from South Africa as a result of lower salaries, it would be more feasible to build more medical schools and nursing colleges, and increase the number of medical specialists, and address the inefficiencies in the public health

care system that would encourage the migration by doctors from private to public sector. It is important to remember that there is no reason given as to how and why public health professional would be paid less than private health professionals.

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