South Caucasus: Privatization of Healthcare in Georgia and Its Disastrous Social Consequences: Interview with Beka Natsvlishvili

Thursday 19 January 2023, by JAPARIDZE Sopiko, NATSVLISHVILI Beka (Date first published: 28 December 2022).

In this report you periodize neoliberal reforms in healthcare into four eras – toying with neoliberalism, militant neoliberalism, soft neoliberalism, and neoliberalism without conviction (current). While the introduction of neoliberal reforms via Shock Therapy, and therefore 'toying with neoliberalism' is more self-explanatory, could you speak a bit more to the other periods? Why is there a need to differentiate between them?

We view healthcare reform in the context of broader reforms. As a result, it was separated into three political and economic stages. We have the impression that the government did not completely understand the effects of the measures. They were only drawn toward the reformist zeitgeist, which ruled the post-Soviet nations following the fall of the Soviet Union. Shock treatment was prevalent at the time. It's notable that despite government efforts, the speed of privatization fell short of expectations, not just in the healthcare sector but also in other areas, which in turn caused concerns for foreign financial institutions. Although there was a tremendous desire to carry these reforms through, on the one hand, the administration lacked confidence, and on the other, there was not enough market demand to buy these facilities. Because it wasn't quite "shocking" the system, we refer to this phase as "toying" with neoliberalism.

The following Georgian government, Saakashvili period, not only complied with the Washington Consensus reforms pushed by global financial institutions but also won their admiration. The reforms frequently went considerably further than these institutions had envisaged. It was a time of authoritarian liberalism. Government scholars refer to this period as such. In all industries, including the health sector, there were far fewer regulations at that time. For instance, the antitrust and food safety services were abolished. The Labor Code was all but eliminated. A single flat tax rate was implemented.

The government passed the so-called Economic Liberty Act In 2010, which is the most significant development and a significant expression of the spirit of the time. It claimed that the constitution forbade both the adoption of a progressive taxation system and a tax increase by the legislature. Additionally, neither the state budget nor the budget deficit should be greater than 30% and 3% of GDP, respectively. The entire commercialization of healthcare was completed during this phase. Both service delivery and procurement were handled by private enterprises. Healthcare facilities might also be owned by pharmaceutical firms. Because the budgets of law enforcement agencies were expanding significantly throughout this time, this wasn't just a decision based on the state's financial constraints. The fact that austerity and privatization reforms coincided with raising the budget for the police and military indicates that this matter was not because of lack of funds, but a

political choice ideology, as is characteristic of neoliberalism. Since this phase is significantly closer to “Shock” therapy than the previous one, we named it the phase of “Militant neoliberalism.”

As a result of this reform, the rate of out-of-pocket payments skyrocketed, leaving nearly half of the population without coverage. People were frequently forced to mortgage their homes in order to cover necessary medical expenses. In 2011, for example, out-of-pocket payments accounted for 76% of total healthcare costs.

Saakashvili’s militantly neoliberal regime was kicked out in 2012. One of Bidzina Ivanashvili’s party, Georgian Dream’s main campaign promises that got him elected was healthcare reform and access to it. The state’s health budget increased significantly during his rule. If state healthcare spending was 17% of all healthcare spending in 2011, it was 40% in 2018. The proportion of out-of-pocket payments decreased proportionally as well.

Nonetheless, simply increasing the budget is not enough to call it a ‘reform’. The primary goal of healthcare deregulation remained unchanged, despite the increased budget. The number of private clinics increased rather than decreased. In terms of ideology, the ruling party (Ivanashvili’s Georgian Dream) is distinguished by great eclecticism. However, the fundamental tenets of neoliberal politics have not changed. Despite having the power to do so, the Parliament did not repeal the Economic Liberty Act. Instead, taxes on profits were reduced to zero if reinvested. Similarly, the state’s attitude toward foreign capital has not changed. What has changed since 2012 is that the Anti-Trust and Food Safety Service, for example, have been restored with minimal standards, and a new labor code and labor inspection have been created slowly. That is why we dubbed this period “soft neoliberalism.”

You write that in Georgia, “citizens and the state budget are hostage to commercial healthcare institutions” (p.10). How would you characterize the relationship between International Financial Institutions and the Georgian state, as it pertains to healthcare, throughout the different eras of neoliberal reforms?

Indeed, the state budget and citizens are held hostage by a commercialized, deregulated healthcare system. There are several reasons for this.

First off, because the state will pay anyway, the clinic turns to pricey medical procedures that may not be necessary at all but to boost its profit, such as a high caesarean section rate.

Second, many clinics with insufficient staff and equipment compete in this unregulated and lucrative market because there are no standards for medical care and the state pays regardless. According to market theory, medical costs ought to be decreased in an environment of more competition. However, the opposite occurs. Since the number of patients is already spread out over numerous clinics, the current clinics attempt to make up for the revenue loss brought on by the decline in patient volume by new players entering the market by raising fees or by requiring unneeded and more expensive medical procedures.

Thirdly, private businesses are less motivated to maintain fully functional facilities, particularly in rural areas where the population is small and purchasing power is low. The patient’s ability to receive the appropriate care is severely impacted by this. We can go on and on.

The shift to a single-payer, universal funding model was the objective for 2012. Such a system is like trying to fill a bottomless pit when the state, as a buyer of services, meets vendors, who are commercial, profit-oriented clinics. Therefore, in 2017, universal healthcare financing returned to targeted financing. Such healthcare, on the contrary, does not treat but manufactures diseases for

its own reproduction.

It is impossible to determine the extent to which international financial organizations had a direct impact on the creation of such healthcare. However, the macroeconomic framework that they immediately requested and constructed in relation to the state budget and their goal of foreign debt reduction must have contributed to cuts in government spending. What we can say unequivocally is that at the very first stage of the reforms, they called on the government to reduce the number of medical facilities and staff. This is documented.

Are market reforms, including in the healthcare sector, generally viewed as 'Europeanizing' in Georgia? Could you elaborate on how and why the commercialization of healthcare in Georgia surpasses Western European neo-liberalization models of healthcare delivery?

Joining the European Union, according to the late Kakha Bendukidze, the main architect of militant neoliberalism, was a ticket to the Titanic. Europe and the European Union are more closely associated with socioeconomic equality and high standards. Regulators and supervisory services, such as the labor code and inspection, can be attributed largely to the European Union and the Association Agreement, rather than directly to the struggle of activists and politicians.

Healthcare commercialization is a much older phenomenon than the close relationship between the European Union and Georgia. Privatization and capitalism are widely perceived as Western phenomena, and these ideas continue to flourish in post-Soviet countries. There is almost no distinction in people's minds between, say, the American and European social orders. And the West— viewed as a single entity – is the end goal for Georgia's position in the world. As a result, criticizing anything Western is unacceptable. However, this is beginning to change.

Regarding the current commercialization of healthcare in Europe, they still have a long way to go before they start to resemble Georgia. Although the balance between labor and capital has already been disturbed in Europe, there is still some sense of class consciousness. In addition, trade unions are not as weak as in Georgia. Therefore, the speed and extent of commercialization will depend on the level of resistance from society and trade unions. Under capitalism, it is very difficult to survive without it. The idealization of the West and capitalism and the demonization of the Soviet Union and socialism made it possible for Georgia to become a neoliberal experiment, including the commercialization of not only healthcare but all sectors. In fact, during the phase of militant neoliberalism, the Economic Liberty Act was introduced a few months after the Liberty Charter, which banned communism.

What is the relationship between healthcare provision and the working conditions of healthcare workers in Georgia?

Since the entire healthcare structure has come to rely on payments, the supporting staff of medical care has been rendered invisible and underpaid, as it is the doctor who charges for services, later to be superseded by clinic directors as privatization deepened. The "professionalization" of doctors is frequently referred to as a positive development in the literature. In practice, professionalization means that doctors progress from workers to the petit bourgeoisie. As a result, most people want to be doctors rather than nurses or lab technicians in order to have more control over their livelihood in this market-driven sector. Although training doctors alone does not guarantee the proper operation of the healthcare system, there is a market demand for medical doctoral degrees, but not for nursing degrees. In 2019, there were 0.6 nurses for every doctor, compared to 2.2 nurses for every doctor prior to 1990. Thus, as of 2019, the number of nurses should be increased by at least 3.6 times to restore the optimal proportion of medical staff with high and mid-level qualified health

workers. However, the opposite trend prevails.

Privatization has a direct impact on healthcare workers' working conditions and healthcare services. Consider nurses. In Georgia, a nurse must work in at least two clinics, full-time at both, to make ends meet. The lack of regulations exacerbates the situation. We are not talking about the minimum wage, which is still nonexistent today. For example, one nurse may have to care for 15-30 patients on average during a shift, which causes stress and burnout and has a direct impact on their ability to work. Patients suffer from burned-out nurses. Many nurses are leaving the country due to harsh working conditions and low pay, which could aggravate the country's health care crisis. As for doctors, it is interesting how much the commercial healthcare system has changed their professional ethics, which should be the subject of the next study.

What are the gendered effects of neoliberal reforms of healthcare in Georgia – with a view to both women's care labour at home as well as the increased burden on women healthcare workers?

As previously stated regarding healthcare conditions, the majority of the support work required for a functioning healthcare system is performed by women and is thus rendered invisible. Furthermore, the emphasis on outpatient services advocated by international experts, rather than hospitalization, which was characteristic of Soviet health care, places the burden of recovery on the family, leading to more unpaid work for women. Not only are nurses and health workers rendered invisible by the clinic's hierarchical nature, with the doctor or service provider at the top, as a result of privatization, but the treatment and recovery, the care work most needed for the patient's well-being, is taken out of the public space and placed back in the home, making it unpaid and invisible. What appears to be making the healthcare sector "more efficient" by reducing hospital beds is a step back in terms of recognizing care work as work, because caring and nurturing are not profitable for clinics. Furthermore, care work is viewed as feminized labor performed primarily by women. While there is some labor law protection for employees who take sick leave, women who work informally or at home are excluded.

When it comes to profit motives causing unnecessary medical interventions, women are the most vulnerable because they give birth. Caesarian section costs much more than vaginal birth delivery, it's more convenient for the doctor since it can be scheduled but it is increases the risk of complications for women and babies. Currently, the caesarian rate is 40.8%, and it has only decreased by 4% in the last two years since the government began financially penalizing hospitals for exceeding caesarian rates. It's still absurdly high. A caesarean section is a major surgery for women who are already depleted from pregnancy, childbirth, and breastfeeding. It makes recovery much more difficult, and these women and babies may require additional medical interventions as a result.

Could you speak about your report's recommendations, in particular, in relation to primary healthcare which, as you write, has become an Achilles' heel for the Georgian healthcare system?

In Georgia, primary health care is the Achilles' heel. The commercialization of health care exacerbates the current situation. First, commercial organizations are uninterested in primary health care because it does not involve high-tech medical interventions, and thus profits are limited. In general, the commercial healthcare system is naturally opposed to the development of primary and preventive healthcare, because the more severe the disease, the greater the profit. Furthermore, the commercialization of health care has resulted in system fragmentation, both on the procurement and delivery sides of health care services. The patient's history is dispersed across various private insurance, private primary care institutions, and private hospitals that are unrelated

to one another. As a result, it is impossible to coordinate the various stages of treatment, which worsens the patient's condition and incurs additional costs. In contrast to being tied to the neighborhood polyclinics, which were the main primary care providers during the USSR, the patient can, for example, change his or her family doctor at any time. The former health minister referred to it as "freedom of choice". As a result of this freedom of choice, the primary care institution no longer exists as a memory card of the patient's personal data and medical history. Without a guide, today's patient is confronted with a convoluted healthcare system attempting to extort as much profit as possible.

First and foremost, primary health care must reclaim its role in health care. It must act as a gatekeeper. Coordination with the hospital sector should be improved. Occupational medicine, which is a pillar of preventive and primary care medicine, should be revitalized.

To cut costs, the healthcare system is now implementing the Diagnostic-Related Groups (DRG) model. If previously, hospitals resorted to expensive medical interventions because the price ceiling of treatment was not established, as in the case of DRG, nowadays the number of interventions will simply increase in order to maintain the same profit rates. Moreover, in order to reduce costs, patients will be discharged sooner than necessary, as has been abundantly shown in other countries.

Our recommendation is to transition to global budgeting, in which the government and health sector budget clinics based on a unified health plan developed after thoroughly observing and studying morbidity trends in the country. This reform would be possible as a result of the transition to a single-payer financing model. Global budgeting would close almost all of the gaps in the commercial system. If any clinic left the market, it could be nationalized. The path to a better healthcare system is relatively straightforward. Otherwise, as the research shows, full state funding and state healthcare institutions ensure much better health quality and accessibility. However, health care is more than just medical treatment. The main prerequisites for health are social determinants such as decent housing, decent pay, clean environment, and good public services. Any system will be rendered ineffective unless these elements are provided.

What was the Soviet Semashko model of healthcare? Does the Soviet 'prevention-prophylaxis' model offer any useful lessons for healthcare provision in the future – a future characterized by pandemics and environmental degradation?

Health outcomes shape our point of view. Morbidity and mortality rates were lower in Semashko's model than they are today. Of course, prevention was emphasized as the pillar of this system and the guarantee of success. The system attempted to prevent morbidity at every stage, from elementary school to the workplace. As a result, we believe it was more effective than high-tech commercial healthcare systems. Prevention is superior to medical intervention. In addition, it was not the individual who was solely burdened with responsibility for their health. The government took responsibility for the wellbeing of its citizens; therefore it was proactive at every stage.

Evaluation of social consequences of reforms is also a methodological question, as your report indicates. When reading it, I could not help but think of a recent book by Ghodsee and Orenstein, *Taking Stock of Shock: Social Consequences of the 1989 Revolutions* (Oxford, 2021), which similarly examines the human costs of transition and reveals the low 'demographic measures of well-being' in post-socialist countries. Would you say there is a renewed interest in research and scholarship in the social consequences of neoliberal reforms in Eastern Europe? If so, why now and how is it different from earlier evaluations?

It is a fantastic book. It became one of our study's sources of inspiration. Thirty years have passed since the Soviet Union's demise. If someone had previously stated that studying the social

consequences of the transition was premature because the fruits of the benefits brought by capitalism would not have been visible, three decades is already enough time to evaluate any system. As a result, the more research done in post-Soviet countries in this area, the more the curtain will be lifted on the farce that is neoliberalism and shock therapy. After all, these reforms represented primitive accumulation disguised as beautiful and foreign words. The system's unmasking can serve as the foundation for fundamental changes.

We know that Georgia has been lauded as a successful example of anti-corruption policies implementation. For instance, Georgian officials, including the former president Saakashvili, have had direct influence on the Ukrainian state institutions. What is the significance of your report's recommendations for other post-Soviet states?

Corruption is more prevalent in areas where the state's functions are limited than in areas where the state's functions are intact. Consider where corruption is most prevalent today, not only in Georgia but also in other countries: in the privatization of major state assets and in state contracts. For example, if a public servant is tasked with paving a road, he is not required to bribe an official in order to complete the task. When private companies compete for the contract, they are willing to bribe the official. The same is true for acquiring state assets.

Regulatory and licensing services were abolished during Saakashvili's time in office (militant neoliberalism epoch), based on the logic that if there was no state, no one would take bribes. As a result, vital state institutions were abolished, and upper-level corruption persisted.

As a result, it is clear that the solution is strong state institutions, with many functions and, most importantly, well-paid civil servants. The most important thing is a proper social security system, in which even the official knows that he will have a decent pension and life even when he retires and that his child will have access to good education and health care provided by the state. As a result, he will no longer consider taking as many bribes as possible in order to live off the money he accumulated as a result of corruption and provide for the future of his children in the event that he loses his job or retires.

As a result of the marketization of healthcare that began in Ukraine in 2018, thousands of nurses have not been paid in months. During COVID, the same thing happened. One would think that during a pandemic and war, health workers would be prioritized, but they aren't because the government abdicates its responsibility and places it on privatized clinics. Saakashvili traveled to Ukraine to continue his radical approach to regional reforms. His organization submitted a draft to significantly weaken Ukraine's labor code not too long ago, which has now adopted under the guise of "Wartime necessity." As previously stated, the international financial institutions were enthralled by Saakashvili's reforms, which often exceeded their wildest expectations. He has maintained that reputation throughout his career, which is why he was welcomed in Ukraine and has received continued support under Zelenskyy. Regardless of the human rights violations he committed during his police regime in Georgia, his economic approach has made him a favorite of many international experts, and Ukrainian reformers have attempted to capitalize on this. If no systemic and systematic analysis of the true outcomes of 30 years of neoliberalism is undertaken, the framework of "fighting corruption" in post-Soviet countries will continue to bring false prophets like Saakashvili, plunging us further into failure.

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economy and political sociology. He established a Masters's Program for Industrial Relations, which runs at three Georgian universities, and is the supervisor of the program. He is still active as an advocate for fair labor, social, and economic policies. He has substantial teaching and research experience in the field of the social sciences. His research experience covers social capital, rural development, fair trade policies, labor, and social policy, and healthcare. He also writes for several newspapers and online sources.

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Note from LeftEast editors. We reached out to one of the authors of a recent and timely study **"Social Consequences of Privatization of Healthcare"** written by Beka Natsvlishvili, Nodar Kapanadze, and Sopo Japaridze (Friedrich-Ebert-Stiftung, Tbilisi Office, October 2022). Another coauthor of the study and LeftEast editorial board member Sopo Japaridze translated the text from Georgian.