

"Hidden in an Envelope: Gratitude Payments to Medical Doctors in Hungary"

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An ethnographer from a faraway land who visited Hungary and carried a hidden camera would notice a strange tribal custom when medical doctors and patients meet. The conversation often ends with the patient bringing out a plain envelope and handing it to the doctor with a gratified smile: "Thank you so much, Doctor, for your kind attention," the patient will say. Then the doctor makes a dismissive gesture: "No, I can't accept that." "Oh do, Doctor, I beg of you!" The exchange may, the ritual may take place silently: the patient slips the envelope onto the doctor's desk surreptitiously continue for a while longer, but in the end, the physician pockets the envelope after all. Alternatively, but to a place where it will soon be seen and opened when the patient has gone. Inside the envelope, there is money, often with a line or two of thanks. The phenomenon of such payments, known in Hungarian as "gratitude money", is the subject of this study.

1. The economic significance of gratitude payments

Some Hungarian physicians conduct regular private practice, in which patients pay for the provisions in the normal way. No one would call these payments gratitude money, even if words of gratitude were spoken. Most of Hungary's health provisions are offered by institutions in public ownership—

hospitals and outpatients' clinics in most cases. The doctors working in these institutions are employed by the hospital or clinic concerned or if formally self-employed, under a contract to them that resembles employment, so that they receive an official salary for their work.

Patients are entitled to free medical care by Hungarian law. The expression gratitude money customarily refers to cases where the patient, more or less illegally, gives money to a state-employed doctor for a provision for which the doctor is not entitled to a direct payment, according to the regulations.

What is the economic significance of this curious type of payment? Let us look at the question first from the angle of the consumer of medical provisions, the "buyer" in this unusual market transaction.

Gratitude money can be seen as a wage supplement. The buyer (the patient) makes a voluntary contribution to the wages that the seller (the hospital or outpatients' clinic) pays to the doctor, thereby raising that employee's total earnings. This concept of gratitude money points to the resemblance it bears to the tips given to waiters, hotel porters or taxi drivers. Employers in such trades calculate in advance that their employees will receive regular tips in addition to wages and set their wages accordingly.

Gratitude money can be seen as a bribe. The idea of bribery may remind many Western readers of the scandalous occasions when private firms pay huge sums to civil servants or politicians in return for a fat contract or order. The advantage that the buyer gains here is more paltry: a little extra attention, a move up the queue, a shorter period of waiting, a better bed in a crowded hospital, or simply receiving treatment from a chosen doctor instead of the one assigned.

Now let us look at gratitude money from the "seller's" side. The phenomenon of rent-seeking is well known in economics.⁴ Typically, providing some service is contingent on a state permit, which makes it scarcer than it would be under balanced market conditions. Those in possession of a permit have a chance of adding a rent to the price they collect from those availing themselves of the service. Ultimately, this rent goes to the bureaucrat who issues the permit or to the provider, or it is shared between them. A good example would be an immediate referral for hospital treatment, with a bed in a single room. The gratitude payment made for the referral to a single hospital room can be classed as a rent pocketed by the treating physician or his or her superior, the senior physician in charge of the ward, or shared between them.

The same example suggests another interpretation as well. The patient is paying an extra fee for immediate referral to a bed in a single hospital room. However, the payment is not going to the owner of the bed, the publicly-owned hospital, but to the doctor, the owner's employee. This "black" rent resembles the "black taxis" found in the socialist economy. The drivers of cars belonging to state offices would "taxi" private passengers, but the passenger would pay the driver not the state for the use of state property.

These four interpretations of gratitude money are closely allied. One type of phenomenon can shade into or coincide with another. They certainly have one important feature in common: gratitude payments are earnings that are concealed. The recipients avoid paying tax and other compulsory deductions (such as social-insurance contributions) on them.

The secrecy may apply not only to those who receive the gratitude payments, but to those who make them, who are ashamed to be seeking advantages in such a way. Concealment is also encouraged because the transaction is illegal, although it is not an offence punished in practice. Neither has anyone ever been prosecuted for accepting gratitude money or the associated tax evasion. Since the law is not applied in this area, perhaps it would be more appropriate to describe such transactions as semi-legal.

2. The extent of gratitude payments

Since gratitude payments are concealed transactions, there are obviously no accurate statistics about their incidence or volume, based on direct observation. Nonetheless, there are ways of gaining a numerical picture of the gratitude-money syndrome.

It is worth noting that the incidence data estimated by doctors are lower than the estimates by the public. Respondents were asked, "How many patients out of ten give gratitude money to an obstetrician, in your opinion?" The average of the responses from the public was 9.2 and of those from the medical sample 8.5. The difference was greatest in the case of a district pediatrician: 6.5 according to the public and 4.6 according to the medical sample⁵ (BGK 2000b, Table 4 on p. 301). The doctors were also asked what percentage of certain types of doctors accept gratitude money. The averages of the responses were 94.4 per cent for obstetricians and gynecologists, and 89.9 per cent for surgeons. The lowest percentage was 78.5 per cent for psychiatrists (BGK 2000b, Table 6 on p. 305).

An attempt was made to arrive at a numerical estimate of the proportion of Hungarian doctors' total earnings that gratitude payments represent. Here just the result is given. Taking net official income (after the deduction of tax and compulsory contributions) and gratitude money together to equal 100, only 38 per cent consists of official income and 62 per cent of gratitude money (BGK 2000b, p. 312).

The gratitude-money phenomenon is not confined to Hungary. According to expert opinion, semi-legal payments to doctors are widespread in Romania and Poland as well, and it seems likely that they are made in other post-socialist countries as well. Research in Poland found that the gratitude money paid in 1994 about equalled the amount that doctors were receiving in official net income (Berman 1998). This is an extremely high proportion, although it is still less than has been found in Hungary. Without any national pride, it can be said that the gratitude-money syndrome, as a sickness of the health-care system, occurs to the most serious extent and exhibits the most acute symptoms in Hungary. The conclusions in the rest of the study are based throughout on the experiences in Hungary.

3. The motives behind the spread of gratitude payments

The rather pompous expression *paraszolvencia*, now a synonym for gratitude money current among Hungarian doctors, dates back to the period before the Second World War. However, *paraszolvencia* at that time had a different meaning from the one it acquired later. Senior doctors would put an appreciable proportion of the indeed high fees they received from private practice into what was known as a petty-cash fund. This they distributed from time to time among the subordinate doctors and assistance working for them. It was a redistribution of fees from private medical provision

The phenomenon of gratitude money really began to flourish in the Kádár period of “soft” dictatorship. What induced patients to resort, voluntarily, to a procedure that was unpleasant and costly for them?

The Kádár period brought some loosening of the command economy and attempts to introduce “market-socialist” ideas into industry, agriculture and commerce. The same did not apply to the health system, where the system of bureaucratic allocation remained unchanged. Patients who submitted themselves to the rules did not have any real choices. Administrative regulations decided which doctor they consulted when they were ill: the “district physician” for their place of residence. That doctor prescribed the treatment or referred them on to a specialist or a hospital. There they were passed from hand to hand in a similar way, and in each case the patients had to submit. Gratitude payments alleviated their defenselessness to some extent: it bought them a little freedom. It could influence which doctor treated them, how attentively they were nursed, what tests were done on them, and so on. In a distorted way, it slipped a little of the market into a realm of bureaucratic constraints.

The doctors’ motives were similar. The centralized command economy strictly controlled wages in every branch of the economy, including the health system. The supply and demand for highly qualified work had little effect on relative wages, since the centralized command economy also disabled the labor market. Wages in health care were set according to the importance that the central decision-makers attached to its activity, compared with other sectors. Medical work, like most intellectual activity, received little financial reward, so that doctors’ pay hardly exceeded the average pay for employees. However, doctors could soar above that depressed standard of living through the gratitude money they were given.

Through this concealed market, patients and doctors, as buyers and sellers, became accomplices in breaking the regulations of the state. Unauthorized transactions took place and

the flows of money were concealed from the tax authorities.

Of course, the financial and health authorities were not stupid. They knew very well that gratitude payments were being made, but they tolerated this happening over a wide area. They saw it as a cheaper solution than raising doctors' official pay. Furthermore, there was a political gain to be made. It reduced the tensions in society to some extent. Perhaps citizens would grumble less if they felt they could purchase a little privilege with their money. So the state leadership connived with those who cheated the state, in what became a general characteristic of society in the Kádár period.

The survival of gratitude money is connected with the fact that the health sector belatedly began to undergo in the 1990s a process of reform of the kind that the business sphere of the economy had undergone in the Kádár period.⁸ The changes display a strong ambiguity: bureaucratic and market coordination, and public and private ownership, combine in a sometimes healthy and sometimes distorted way. Gratitude money fits into this ambiguous environment.

To take one form as an example, many more doctors have a legal private practice these days, while remaining as full-time employees of the state health organization. Many of them keep up a private clinic for the purpose, in their homes or elsewhere. A patient calling at a doctor's private clinic is given a preliminary examination, or may simply have a conversation with the doctor. The patient is charged for this private provision. Then the sequence of events becomes more problematic, legally and economically. The same doctor goes on to treat the same patient in the state hospital where he or she works, as his "own" patient, but of course on state premises, using state equipment. The doctor does not pay any fee to the state for using its capital assets or for the work done for the patient by colleagues and subordinates. How can the payment this patient has made to the doctor be classified? Nominally, it is nothing other than the market price of a private provision. In fact, much of it is a tacit form of gratitude money, for "extra attention" to a favored patient, given by a doctor in state employ. All four explanations of gratitude money given in Section 1 apply here. The inclusion of a private practice, or the fact that the patient pays the money openly in the private clinic instead of tucking it into the doctor's pocket in the hospital corridor, makes the transaction easier. Whatever kind of inspection is attempted, it is legally impossible to say where the regular market price of a provision ends and the gratitude money begins.

4. The economic consequences

Gratitude money has several harmful effects from the economic point of view.

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The incentive effect. Patients, in their own way, are giving the doctor a financial incentive. They hope this will encourage the doctor to give them privileged treatment. However, the chance of the incentive being effective is not great...

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