

HEALTH: RIGHT OR LUXURY?

by John Armstrong

“Look to your health, and if you have praise God, and value it next to a good conscience for health is the second blessing that we mortals are capable of; a blessing that money cannot buy.”

Izaak Walton

FULL HEALTH is the epitomy of having the ability to live a full life. Society attaches great importance to health in its widest sense. Due to its fundamental nature economists have long endeavoured to provide a theoretical framework in which to study aspects of health. Its applicability to many fields of economics is apparent immediately.

This short discourse shall attempt to explain the economic significance of decisions relating to health care. More broadly it will also seek to develop a logic to the Governmental decisions in relation to the provision of health care. This will include amongst others thing an international comparison of the role of the state in the provision of health care and a brief analysis of the choices facing contemporary political leaders such as the American President.

IS HEALTH AN ECONOMIC GOOD?

Health is a wide term and encapsulates many concepts. Life expectancy is for many a crude indication of health. Another concept which is applied to health is the need for health care. This presupposes to some extent that such health care facilities are available to all. Linkage into the economic system by means of the existence of demand is immediately attained. However demand is not in itself a sufficient condition for supply.

Marshall defined an economic good as one which displays a number of qualities. More particularly it is one which is relatively scarce, provides utility and is transferable. Undoubtedly the subjective nature of scarcity makes these criterion slightly deficient in relation to health. The theoretical foundation for a proper health care service may lie in the subjective appraisal by many that scarcity of health exists and that transient ill-health must be removed at all costs, economic or not.

Aspects of health relating to utility have long been accepted. After all, existence is the basis of life. Consequently, the economic constrained optimisation of individual life cannot be solved without a sufficient level of health to ensure continued existence. For instance good health increases the productivity of labour. Transferability may seem absurd to many. Technology has long been assessed as a parameter for the optimisation of the production process. The effect of increased technology is clear. The advent of increased medical prowess through the development of a new technological framework has to a large extent in recent years removed this notion of the absurdity of the transferability of health. Processes such as the transplant of human kidneys which thirty years ago would have seemed illogical are now commonplace. Technology makes the seemingly impossible attainable. Through the research and development process health can now be characterised as a transferable commodity.

Consequently a strong argument may be put forward for the existence of health as an economic entity. In fact the health care industry is big business. More particularly, many argue it is the business of the governmental process to provide an adequate health service.

THE ROLE OF THE STATE

The general philosophical debates of the eighteenth and nineteenth centuries were surrounded by the questioning of whether, if free play was given to the existing structures, they would of themselves provide harmony and social well-being. This debate is still relevant today.

This divergence to philosophical concepts provides the basis for government intervention in the health economy. The fact that health is fundamental to existence implies a strong moral reason why such actions should be forthcoming. This, combined with the purely economic reasons for the lack of supply in certain health markets provides a strong foundation for such intervention.

Governments' primary objective should be to act as rule-setters. The Libertarian Party of America in their 1992 Presidential election campaign leaflet acknowledges that "Governments' only role is to help individuals defend themselves from force and fraud". The fictional basis for a non-governmental economy is immediately eroded as this minimalistic rule-setting function definition acknowledges. Beyond such approaches, the underlying idea is that due to this inherent monopolisation of the powers of rule-setting, the state possesses special characteristics which provide the practical if not the moral authority for further functionary roles. Functions such as those of economic stabilisation, efficient allocation of resources and distribution (or more particularly "fairer" distribution) can be identified as being of fundamental importance and highly relevant to the economics of health.

Many argue consequently that by its nature equality of outcome is a

supposition upon which government intervention in the health market can undoubtedly be based. The reallocation of endowments can perhaps have its foundation in utilitarian classical micro economics. On a more practical basis justification of intervention in the health market can be based on the complexity and scale of the health care system. It is said that its large role in everyone's life and consequently its sheer size makes regulation of the market by some method essential. The fundamental nature of health is also often provided as the basis of government intervention. On the basis of the value-judgement that life is sacred the case for such a role is argued. This is essentially logical but its authenticity is somewhat removed by the inability to analyse in quantitative terms the positive effects of state interference.

The social externalities dealt with by the provision of an adequate health care system are also cited. By the use of early protection and treatment facilities their prevalence may be greatly reduced. AIDS is a case in point. The inability of the free market to provide care at an optimal level for such patients is a clear justification for a State role in health provision. The underlying weaknesses in free-market provision outlined below perhaps provide the strongest reason for such interventionist behaviour. The sub-optimal performance of particular sectors due to large scale inefficiencies in the market provision of health entails a loss to society of a product which in its largest sense is a prerequisite for human existence. In a democracy, governments are elected by the people and should serve the people. Many economists cite this as a reason why the state should involve itself in the economy. If this accepted, health by its nature is top of the list for prescribed government actions.

REMEDIES FOR ACTION

Government intervention in the workings of the economy is primarily of two types. Regulatory or public expenditure methods provide the mechanisms whereby change may be enacted as the governmental authorities see fit. Conversely change for the improvement of the conditions of life is such a justification. The actual government intervention (or non-intervention) can be modelled on one of three broadly defined groups which are typified in the workings of the health system in many of the industrialised countries.

America is perhaps the purest example of providing private doctors and hospitals (with the government offering insurance) to some of its citizens not covered for ill-health by insurance. Ireland and Britain operate mostly under the Beverage model of publicly owned (or at least controlled) hospitals and state employed doctors. The hybrid model closely linked to the pioneering system introduced in Bismarck's Germany of the 1880s is epitomised most closely in Canada and Japan. It entails the institutions of the State almost wholly funding the health system which is in turn provided by private means. This outline of the cross-national methods of operation serves to highlight the considerable variations in the ways the major industrialised countries provide their health care. This divergence

is a manifestation of the large number of difficulties involved in measuring the productivity of health care instruments. Consequently the relative economic rates of return between the different governmental measures will never be able to be assessed in objective terms as may be the case with other areas of intervention. Subjectivity will be needed to be applied to derive the optimal decision as to government investment levels and the like. All this leads to a large diversity across countries in the variety of measures which may be adopted.

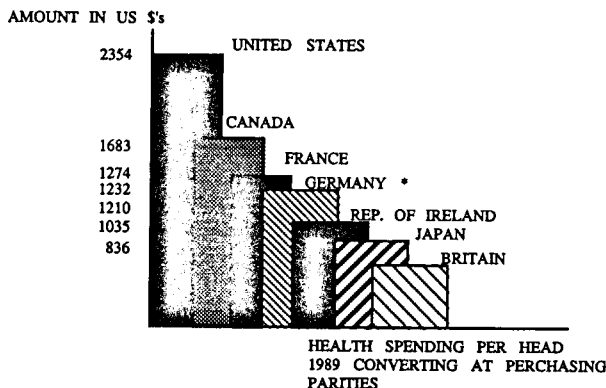


Figure 1

*GERMANY TAKEN AS THE OLD WEST GERMANY,

Presently America is providing the focus of attention for health enthusiasts. Former President George Bush prided himself in stating that America had the best health system in the world [2]. Perhaps this analysis is true. However the high cost, high tech., high intervention, yet highly privatised American system does have its flaws (Figure 1). Insurance bills are astronomical, so much so that the chief reason cited for business bankruptcies at present is the cost of health insurance. The spending of effectively 50% per capita more on health by the Government in the United States compared to Ireland demonstrates American difficulties of less than optimal efficiency. Yet the cost of insurance means that an unemployed United States worker goes without cover. This high price low effective quantity supplied is the classical characterisation of a monopolistic market structure. Part of the cause of these high prices may lie with a legal system which allows enormously high payouts to patients who sue their physicians (much the same way as the car insurance industry in Ireland suffers). Similarly, the workings of the market whereby preventative medicines are unprofitable for the profit-driven private sector thereby leading to no exchange at all taking place leads to a somewhat higher demand for health care demand than would have been otherwise necessary. The price distortions associated with such problems typify the inefficiencies, either purely economic or regulatory; inherent in the US health system at present. It is

ironic that the country that spends the most on health provides the least amount of health care for some of its citizens. Only by a radical restructuring will accessibility improve. However political divergence from economic rationality means that change is slow.

CONCLUSION

"Both the existing economic order and too many of the projects advanced for reconstructing it break down through the neglect of the truism that since even quite common men have souls no increase in material wealth will compensate them for arrangements which insult their self-respect and impair their freedom. A reasonable estimate of economic organisation must allow for the fact that..... it must satisfy criteria which are not purely economic"

R. H. Tawney

Economic rationing is a necessary evil. The lack of unlimited resources means that such methods are inevitable. The degree to which such methods should go provides the focus of debate. Is it preferential to treat some groups in society more fairly than others? The explicitness of the rationing process within the medical sector has provided scope for much debate. (For instance some have suggested that resources should not be spent on groups over a certain age thus condemning many to death.) By its definitional difficulty problems exist relating to the productivity of health. Resources consequently are easily deployed by providers in less than optimal utilisation. This added to the complex industrial structure of health care, makes inefficiencies more likely to exist. The role of the state should be amongst other things to regulate against such wastages. No method is perfect but by care and by structured analysis inefficiencies can be reduced.

If we believe that the objectives of the economic system are the sole essence of life then all actions will be influenced by such concerns. If on the other hand other goals exist they will at least be equally as important as the economic considerations. The industrialised world is now at such a wealthy level that reasonable economic inefficiencies which ensue from the provision of adequate and equitable level of health coverage should not matter.

NOTES

1. English writer.
2. Undoubtedly the level of technology is far superior to that of most other countries leading to perhaps a more specialised service.

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