Specificity of the Health Care Market

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crossref http://dx.doi.org/10.5755/j01.ss.79.1.4072

Abstract

The article attempts to specify the health care market. Characterizing the market of health care services and its products requires special attention so as to ensure the efficiency and profitability of the market. Hence, the aim of the article is to analyze the specificity of the health care market, distinguishing the elements of the market and the opportunities for optimizing the functioning of health care system.

The article, evaluating the health care market, provides the definitions of health care and health as economic products. In the literature of health economics, definitions are very important, especially when analyzing the health care market. Health care is described as an economic activity the results of which can be the object of exchange, while health is treated as one of the characteristics of health care. In the present article, the main participants of the health care market and their relations are identified, emphasizing the transparency in the flow of goods or services and financial resources.

Keywords: health, health care, market, demand, exchange.

Introduction

The market of health care services has recently become an object of regular analysis for economists. Obvious problems causing ineffective functioning of the health care system require a detailed investigation. The economic crisis has shown for the majority countries that there are many obvious disadvantages affecting a normal functioning of the health care system.

Characterizing the health care market is complex because of two main reasons. 1) Firstly, in all parts of the health care market some form of exchange takes place, the main purpose of which, in general terms, is the allocation of funds among the organizations providing health care services. The exchange in the health care market is characterized as multistage (the exchange can take place among several participants in the market at the same time), as asynchronous (a lag in time when exchanging resources can be different: a good or a service is provided immediately, while financial operations, bearing in mind the abundance of participants, can take much longer), also, an impersonal reporting for goods or services is peculiar to the exchange in the health care market. 2) Secondly, the above-mentioned function of allocation is the core of the health care system, emphasizing the action of the system. Also, evaluating different groups of the health care market participants and their relations according to a strategic approach, it can be noted that there still are opportunities for optimizing the activities which do not cover consumer interests. The exchange process in the health care market can be much wider than an ordinary payment for goods or services, because it has to be reconciled to global health needs and consumer expectations, and also to the provided service performance optimization.

The specificity of the health care market has been analyzed by researchers. Health economics, health care politics, its specific aspects and issues have been the objects of investigation: Folland, Goodman and Stano (2007) analyze the concepts of health and health care as well as differences among these concepts. The aspects of supply, participants, and financing models of the health care market have been analyzed by Cichon et al. (1999), Beeny (2010), Chluska (2008). Most of inquiry into the health care market is fragmentary and does not render a unanimous viewpoint.

The aim of the article is to analyze the specificity of the health care market and the opportunities for optimizing the relations among the health care market participants. Applied research methods have been based on the analysis of academic literature, comparative analysis, and the analysis of statistical data.

The goals of the article are to highlight the specifics of the health care market, to analyze separate parts of exchange of the health care market, aiming at the health care system performance optimization.

Health care and health

The terms of health and health care as a service concept are provided in economic literature. Looking from the economic perspective, health care is directly related to services, which differs from health in general. Economic knowledge allows us make this assumption, because the main attention in economic literature is concentrated on good/service supply, demand, and the retailing process as a whole.

Health is hardly defined and measured, and also hardly realized as an economic good or service. Health as a service is neither an object of an exchange nor a trading process which can be disposed in the market. Bearing this
in mind, health is defined as one of the characteristics of the goods or services in the health care context. From the social point of view, Twaddle (1974) defines health as a shape of individual, when one’s physical strength and role in daily activities are maximally realized. According to the World Health Organization (WHO), health is physical and mental wellness of an individual, without any diseases or disabilities. Considering the above-given definitions, health can only be used as a characteristic of health care and it can’t be the object of exchange because of its indeterminacy. Health is valued as a result of an effective health care system, guaranteeing the maximal quality of life for individuals (Drew et al., 2000; McKee et al., 2004; World Health Organization, 2009). A result of the health care system usually is defined as a health level.

It is important to note that different health policies in particular countries determine variant definitions of health. Reaching for an effective functioning of the health care system, the allocation of the functions of organizations responsible for the health care is very important, reaching opportune and necessary health care services (Mossialos et al., 2002).

Value as a definition is treated in economic literature as the value of a good or service, according to which the exchange can be made. Economics has nothing in common with the good or service value measurement according to different philosophical or moral assumptions, which have no specific economic expression. In economy, the gain of a particular unit is evaluated according to its ability to satisfy the needs of a consumer. In practice, the value of an economic unit, or its gain, is the maximal exchange value of a particular unit. The value of a different economic unit can vary, depending on its gain for the consumer, so some units can be overestimated, while some of them can be devaluated. Summarizing the concept of health as an economic unit, it is possible to draw a conclusion that health has value for a given individual and has no exchange value in the market.

As it was already mentioned, health care, differently from health, is treated as an economic activity, providing products which can be used in exchange. Whereas health can be treated only as one of health care characteristics, depending on an individual life style and on economic situation of the country.

**Participants of the health care market**

Health care financing systems are among the units of health care policy implementation. The main aim of the health care policy is the correspondence between consumer needs and health care services, bearing in mind different levels of individuals’ health.

A successful functioning of the health care system depends on the interested parties of the health care sector:

- health care specialists,
- patients, their relatives, and friends,
- taxes and social institutions,
- insurance companies,
- pharmaceuticals companies,
- other investors (employers),
- government, health, and financial ministries.

Although all the interested parties are related by the common interest of reaching quality and effectiveness of the health care system, their grounds and incentives are basically different. The main aims of health care financing institutions are cost management and costs efficiency. The main concern of the health care system providers is the result and quality of a specific treatment or health care services. Most often, a consumer pays attention neither to deficiencies which occur when providing health care services, nor to the health care services costs. So, cost management and cost efficiency areas are most recent for investors of the health care system who have to ensure the most effective allocation of resources providing health – the main product of the health care system.

The main aim of health care is to improve health. Health care services are effective if they help improve the current health level of individuals, prolong the standard life expectancy, and improve the quality of life (McKee et al., 2004; World Health Organization, 2009).

A standard definition of market says that a market is a place where a provider offers goods or services for a potential consumer, interested in exchange. The health care market is characterized as heterogeneous in exchange forms, therefore, one of the challenges is to define the exchange process in the health care market. Participants of the health care market are shown in Figure 1. Six main groups of participants are distinguished: a consumer, institutional units, pharmaceutical companies, intermediaries, providers of health care services, and providers of health related services. Market participants are related directly or indirectly. Figure 1 shows the flow of goods or services and the type of financial settlement. Financial settlements among a consumer and pharmaceutical companies, as well as among intermediaries and providers of health care services are direct, implemented in cash or by debit cards and are characterized as direct payments. Financial settlements among other market participants (institutional units, intermediaries, pharmaceutical companies, providers of health care services, providers of health related services) are assigned to direct taxes, as they are carried out under contract within a certain period of time, stipulated in the contract.

Exchange (trade), similarly to the majority definitions of health economics, has no commonly accepted definition, and the essence of it can vary even in translations into different languages. From a practical point of view, exchange (trade) is characterized as the allocation of financial resources among exchange participants, differentiating the allocation process into passive, active, and strategic allocation for health benefits, responsibility, and efficiency.

A consumer, in order to get a good or a service, provides an equivalent which insures the exchange transaction. It can be argued that in-market adjustment lever is the price, but the driving force is a personal need. That is, the price helps regulate the production and marketing of products, methods, and levels. However, this market faces a high risk and uncertainty.
In this market, health care providers offer specific products, and their service volume and mix of demand cannot be easily predicted. Products sold in the market (health care) must be adapted to the specific needs of the consumer market, which further extends the current market mechanism.

The health care market is an integral part of government policy and its control. The classification of economic activities in a health care practitioner are a short and long term treatment of general and specialized care, surgical, psychiatric, and addiction patients, sanatoria, medical care homes, shelters, and mental health resort activities. Considering the given description of the activity, it is possible to state that the area of health care is very wide, and the health care service market is heterogeneous.

As given in Figure 1, the purchasers of health care goods or services can be various: competitive insurers, social funds, local authorities, pharmaceutical companies. They act in two types of markets: in the health care consumer (potential patients) market and in the market of health care services (hospitals, clinics, diagnostic services). Bearing this in mind, it is very important to emphasize the exchange as multistage, influenced by the abundance of market participants.

The health care market is complicated by market participants and the quantity of interaction forms. Flows of goods and services are clear enough, but the distribution of financial resources among individual market participants is difficult. Taking into account the analysis of health care market participants that has been provided, it is possible to say that the relations and their transparency are the basis for optimization of the health care system. In recent years, an ever-growing influence of pharmaceutical companies as health care providers has become an actual problem in this field, because the impact and the objectives and scope are often not transparent and formally declared; as a result, the interests of consumers of health care services can suffer.
Another problem of the transactions among market participants is the interaction between consumers and providers of health care services. Although all the citizens have the right to free-of-charge treatment, currently, some services are charged by symbolic payments. The main problem of this interaction is informal payments (bribing), the scale of which is difficult to determine. The abundance of participants in the health care market and their interaction cause different variations of the exchange function and the uncertainty of funding sources among participants of the health care market. Having in mind the analysis of health care market participants and their interactions, three main groups of interactions can be characterized, according to functions of the participants: consumer – investor, consumer – provider, provider – investor (Figure 2).

**Health care market features**

Thus, the health care market has some specifics: a) the demand for health care is formed by diseases and the uncertainty of their occurrence; b) there is information asymmetry concerning services and their quality; c) professionalism and monopoly are evident in providing health care services; d) health care is considered to be the public good; e) health care demand and social equality are characteristic to it; f) the majority of health care service providers are non-profit organizations; g) payments for health care services are commonly made through financial intermediaries.

Most often, the need for health care is caused by a beginning disease. The main problem for a health care service consumer is a low chance of predicting the emergence of a disease. The majority of diseases are unexpected. Some can be predicted, but their proceedings and needs for treatment are uncertain. Uncertainty differentiates health care from other services, where uncertainty is only conditional. A patient with a heart disease will need surgery which gives an opportunity to recover and prolongs life span. If a specific treatment or surgery can’t improve the condition of the patient, the need for health care does not exist independent from the significance of the problem. The needs for health care can be big or small, depending on a specific situation.

The demand of health care does not always reflect the needs of consumers. This situation is caused by wrong expectations of consumers or by inadequate information about treatment and its influence upon health. The demand in the health care market is usually produced by the information, provided by specialists and by treatment methods, promoted at that moment.

Talking about health care, there is disparity between the costs of services, satisfying a specific need for a health care service. The majority of health care services are expensive and make consumers worry.

Health care services are associated with uncertainty and risk. Uncertainty means that many health care outcomes are difficult to predict. Meanwhile, the risk means that a certain result and its potential are known, but they may differ in a particular case. Therefore, most health care markets are more risky, even though many cases and processes are known for medical professionals. The health care market relates uncertainty to individual consumer behaviour, to specific decisions on the choice of treatment. Economists say that consumers tend to make wrong decisions in selecting treatment methods, which do not affect the health status improvement.

In order to insure against risks in the health care insurance market, insurance is used, and for the uncertainty control various strategies are used to help provide all possible treatment outcomes. It allows getting certain compensation for treatment and for using the necessary medical services (Chluska, 2008).

Insurance is particularly useful in the cases when there is a possibility to precisely predict positive and negative results of the treatment, to be aware of all the options, and to cognize the analyzed distribution of various risks in the population. But the need for health care services does not reflect these characteristics. Little is known about the risk of various diseases, conditioned upon a particular individual. Medical and health effects can be variable and unpredictable. Due to these reasons, to various types of risk and uncertainty, the health insurance market has been defined as incomplete.

Considering the health care market, it can be argued that health insurance buyers should be more informed than insurance sellers, partly because of their family history and the health state, known only to them. A high cost of health insurance is a safeguard to prevent abuse. Health insurance is intended for patients who face a high risk of developing various diseases, specific to their family. Patients from healthier families use health insurance for low-risk much less. Thus, if a patient with a lower risk decides not to insure, the average insured patient’s risk is higher. This leads to increased insurance premiums for patients with low risk and to withdrawal from the market. Health insurance is necessary, because many treatments are expensive and may not be available for many people. Meanwhile, health insurance makes it possible to obtain the necessary medical services if the need arises.

Economic theory says that consumers use a service as long as they perceive their benefit to be greater than the costs of purchasing it. Even if service benefits are limited, it will be in demand as long as the price is relatively low. This particular reason has determined the specificity of the health care market, which is excess. In this case, reason and order are necessary in the health care market. From the position of welfare economics, the problem is much greater, because the users of health services want services, the benefit of which is substantially less than the cost. In this case, the insurance, which is necessary for minimizing risk and uncertainty, becomes the cause of excess demand and inefficient use of resources (Murray, Frenk 2000; Saltman et al., 2007; Beeny, 2008).

Next important issue of the health care services market is information asymmetry. The market functions best when the transaction participants are well informed, because a lack of information may lead to some difficulties in implementing transactions. In the health care market, neither a patient nor a doctor has any relevant information. Also, there are differences between the two participants in the transaction of knowledge: patients know the symptoms
and can better express themselves in a particular case, while doctors have a better understanding of diseases and treatment specifics. Another reason that hampers the effective functioning of the market is health care provider’s recommendations for specific therapies. Health care market must be regulated by professional organizations in order to eliminate the impact of information asymmetry and over-consumption (Dubois et al., 2006; Jack, 1999; Rechel et al., 2009; Varkevisser et al., 2010; World Health Organization, 2009).

In the market of health, care providers require a specific level of education and experience in order to ensure the quality of service. Specialists providing health care services are licensed, which helps protect patients from poor quality services. Licensing has been identified as one of the entrances barriers to the health care market, creating favourable conditions for the existence of a monopoly. The main feature of any market is a direct correlation between the number of participants and the degree of competition in the market. Health care providers and their activities is a specific area, and the entrance into it is controlled to manage the level of competition in the health care market. Such a situation means that the bulk of the health care market has been divided into few or just several solid pieces, and the market is characterized by the elements of monopoly.

Health care providers are mostly non-profit organizations with publicly available and necessary health care services. Perhaps the biggest problem in terms of health care services is health care funding and a significant role of financial intermediaries in this process (Mostialos et al., 2002; Rechel et al., 2009; Saltman et al., 2007; World Health Organization Regional Office for Europe Copenhagen, 2000).

Summing up the health care market specifics, it can be said that the health care market is characterized by excess demand. The demand for health care services far exceeds the supply. This leads to the practice that patients have to wait for a number of important procedures and tests. Despite the fact that funds for the health care system are allocated each year, it does not guarantee answering all patient needs for medical services. Social health insurance makes it possible to use standard medical care free of charge, but more sophisticated services to patients can be costly. With regard to social health insurance, paid for health care services, some uncertainty prevails. This insurance fee is deducted from each employee in accordance with statutory procedures. The insurance payer is not associated with the paid taxes, that is, he/she is guaranteed a certain health care, irrespective of the amount of taxes he/she pays. This determines a particular fact that one part of patients consumes a lot of health care services, while others do not use such services at all. Thus, for many there is a legitimate question: would not it be better to link each patient with the amount paid for health insurance?

Finalizing the issue of the specificity of health care market, the following main issues of health care market can be emphasised. The health care market is characterized as heterogeneous, because a specific product is adaptable to specific needs. The market is characterized by uncertainty and risk, because it is impossible to predict a disease, and the success of the treatment process depends on accurate and timely information from both the physician and the patient side. The health care market generally has one or several strong organizations; there are several barriers to enter the market. Working there often brings loss, because costs exceed revenues. Also, the market is characterized by excess demand and price inelastic supply.

Conclusions

The research into the health care market issues suggests the following conclusions:

1. Analyzing the specificity of the health care market, it is very important to evaluate health care and health as economic products. Health care is seen as an economic unit with a specific exchange value terms, while health is a characteristic of health care services and cannot be individually assesses or used as an exchange unit.

2. The abundance of participants in the health care market and their interactions make the exchange process much more complex than the allocation of resources. Exchanges in the health care market are multistage, asynchronous, and the impersonal reporting for goods or services is representative for the exchange in health care market. The flow of goods or services is clear enough, but the exchange processes and values among the participants can be difficult to identify, and become the source for process optimization when seeking transparency in system performance and aiming at satisfying customer needs.

3. The health care service market analysis leads to singling out the following main features: the health care product market is characterized by uncertainty, the market is dominated by non-profit organizations, and the account for the costs of health care services is carried out through a third party (government or private financial intermediaries).

4. The health care market is characterized by excess demand, which often does not reflect real needs of the population in the health care services. The health care market is characterized by information asymmetry, complexity, and risk prediction, as well as by the limited number of players on the existing market entry barriers and also by a dominant role of financial intermediaries.

References


