Good healthcare economics (the beveridge model) term paper example

Countries, United States

Introduction

The American healthcare system is the most expensive in the world as indicated by mirror reports in 2010, 2007, 2006, and 2004 (Davis, Stremikis, Squires & Schoen, 2014, p. 7). According to Bhattacharya & Hyde, (2013, p. 251), by 1960, America's expenditure on healthcare was low to an extent that it could only spend a twentieth of her Gross Domestic Product on healthcare costs. The U. S. ranks the first in term of cost related problems since the price elasticity of healthcare services in America is relatively elastic. Considering that many people are price sensitive, they opt for alternative care other than visiting health facilities. For instance, if a pharmaceutical firm doubles the price of prescription drugs, most Americans would opt to do without them; hence, increase the cost of curing health outcome (Davis, Stremikis, Squires & Schoen, 2014, p. 20). President Obama is aware of the health problems and while giving a speech in Green bay in June 11, 2009, he admitted that the free market in healthcare hurts the majority of Americans 46million of which are still uninsured (Office of the Press Secretary, 2009, p. 1).

America adopted new technology and undertaken reforms in payment and delivery system as outlined in the Affordable Care Act. As that it not enough, it relies on legal provisions to reduce the cost of healthcare, which has proved to be ineffective in taming the skyrocketing cost of healthcare (Thorpe, 2005, p. 1439). The move by the American central authorities to allow market forces of demand and supply to determine health prices is another contribution as to why healthcare costs will continue increasing as the demand increases. The American regulatory authorities have a tendency

of limiting the number of students enrolling for medical courses, a move that limits the number of medical practitioners in the healthcare sector. This problem further causes the existing medical practitioners to impose monopoly rents that increase the cost of healthcare.

For fear of legal liability, most doctors in America engage in physician-induced practices, which force them to conduct unnecessary medical tests or use complicated and costly procedures while treating their patients. Such a practice contributes to increasing healthcare costs. The learning-by-doing phenomenon has made most American health facilities to compete for a fixed number of patients, thereby ending up serving few clients, which is costly. Some health facilities that can manage to attend to an increased number of patients practice natural monopolies, which allow them to set prices.

Considering that over a half of the American citizens have medical covers, they take some behavioral health hazard and engage in practices that cause health insurance firms to bear extra cost of treating them. For instance, an individual who takes too much cheeseburger, while knowing that he or she is at the risk of a heart attack does it because he or she pays less or no fee of managing the heart attack. American healthcare problems are major causes for increased healthcare costs and in order to alleviate the situation, the American government should adopt the Beveridge model, and initiate health technology assessment, which will help in the realization of social desirable outcomes in the healthcare sector.

The rationale for adopting these reforms is to ensure that the central government retains the power to dictate supply and wage of medical

practitioners. Apart from that, making these reforms in the American healthcare sector will allow the government to dictate prices and control all health facilities and operations of pharmaceutical firms. In so doing, the central authority would restrict the healthcare market from controlling prices that cause an increase in cost.

Description of the problems

Regulatory measures that hinder increase in students undertaking medical courses

Unlike in most European countries where high school student can enroll directly in medical schools and train to be medical practitioners, the situation is different in America; learners have to join an undergraduate institution where they learn basic sciences before they can enroll for in a medical school (Bhattacharya & Hyde, 2013, p. 24). Additionally, entry in many medical schools in America is difficult; for instance, in 2011, University of California received 6, 767 applications for students wishing to pursue medical courses, but the institution only had 149 slots.

Financial regulations hinder many students from pursuing medical courses in America. Notably, one needs $140, 000 to study medicine in America for four years in a public medical school, while the same student will need to pay $250, 000 to pursue a medical course in a private medical school. The situation is different in France and Germany, which charge a subsidized fee ranging from €200 to € 500 for a year. In America, unlike in other developed countries, after a medical student has completed the course and the internship, insurance firms are reluctant to reimburse them fully because

they feel they are not experienced; for this reason, many students leave their residency and seek for alternative placements in other countries. (Bhattacharya & Hyde, 2013, p. 25)

Limited supply of medical practitioners

Considering that financial restrictions and institutional regulations allow few students to pursue medical courses in America, the available specialized doctors are low. For this reason, available doctors charge monopoly rents thereby contributing to the increase in the price of healthcare (Bhattacharya & Hyde, 2013, p. 88). Further, to limit the supply of medical practitioners, American medical regulatory firms allow few international medical graduates to practice in America hence sustaining the problem (Bhattacharya & Hyde, 2013, p. 89).

Physicians' incentives

In most cases, medical practitioners in America sway around with prescribing more services than they patients need because patients are not enlightened on matters related to health. Doctors may induce medical procedures because they want to earn more from medical insurance firms (Bhattacharya & Hyde, 2013, p. 91). In other case, doctors may engage in defensive medical practices to reduce the legal liability associated with medical lawsuits filed against them for incompetence, negligence, or related malpractices. To avoid such situations, Doctors conduct extra diagnostic tests, low-value treatment and even use unnecessary invasive procedures, which are costly in executing their duties (Bhattacharya & Hyde, 2013, p. 92). Although defensive medical practices are undertaken in the UK, the

degree to which it is done in America is higher than in the UK that is, 59% and 17% in U. S. and U. K. respectively. Such a practice increased the financial cost in America because of medical liability, which reached the heights of $55. 6billion in 2008.

Competition in the healthcare sector

According to the arms race hypothesis, health facilities do not compete based on prices, but on quality. In such a case, price tend to automatically increase as the race will be continually quality-based such that health facilities with modern technology and with skilled medical practitioners offering quality service will receive many patients unlike those that offer poor quality service (Bhattacharya & Hyde, 2013, p. 110). American health facilities engage in price related competition, which again determines the quality of healthcare services they offer. In as much as healthcare facilities in the U. K. are government-run, the central authority encourages competition based on quality by allowing patients to choose health facilities they may want to seek medical attention especially surgery. Apart from that, initiating a competitive bidding process for government contracts given to hospitals allows health facilities in the UK to improve the quality of their healthcare services for consideration by government (Bhattacharya & Hyde, 2013, p. 112)

Prevalence of learning-by-doing phenomenon

Health facilities that adopts learning-by-doing practices affects patient's outcome negatively. Arguably, when many health facilities compete for a non-changing number of patients, it is true that each health facility would

only get a chance to attend to few patients thereby lowering the chances of learning-by-doing. Such a practice increases the operation cost of hospitals that attend to few patients because there is no “ economies of scale.”

Moral hazard

American are price sensitive individuals, but engage in social behaviors such as cheeseburger consumption even though they know they are at a high risk of heart attack. Such a behavior leads to social loss because insurance firms bear the costs of increased heart attack cases thereby increasing healthcare costs. Moreover, information asymmetry contributes to increased cost of healthcare in America because insurance firms cannot spy on their members and establish the real causes of the perils affecting them hence making many citizens to lack the moral control of avoiding certain practices such as consuming too much cheeseburger (Bhattacharya & Hyde, 2013, p. 206-207).

Healthcare price increase as influenced by pharmaceuticals and technology firms

Sometimes, the American government gives monopolistic protection for specific firms that invented or developed a given drug first thereby allowing them to increase the cost of the drug for some time, until they recover their costs. In such cases, some pharmaceutical firms may be reluctant to engage in research and development that would see them reduce the cost of operation. Instead, they continue increasing the prices of patented drugs, a move that contributes to the increased cost of healthcare especially for prescribed drugs (Bhattacharya & Hyde, 2013, p. 237). Apart from that,

other pharmaceutical firms in America practice price discrimination that allows them to sell their drugs to citizens who are willing to pay highly. Such firms sell the same drugs fairly in other countries where governments dictate price of pharmaceuticals.

Presentation of specific reforms

Adopting the Beveridge Model

The American government should adopt the Beveridge model characterized by the following features: the central authority should be the single-payer insurance, which covers healthcare costs for all its citizens who become members of the insurance cover automatically without registration or payment fee (Bhattacharya & Hyde, 2013, p. 328). The American government should levy taxes from its citizens to fund the insurance as opposed to insurance premiums.

Adopting such healthcare reforms will allow the government to run all healthcare facilities including hospitals and clinics and employ or hire medical practitioners to render services in the established health facilities. Relatively, the British healthcare system operates based on the National Health Service enacted by British legislature in 1946 nationalized all health facilities owned by religious institutions, local governments, and private organizations (Bhattacharya & Hyde, 2013, p. 329). Later, Australia, Canada, and New Zealand adopted system of health system, which has been successful. As that will not be enough, the American central authority will determine places where and times when expansion and construction of health facilities should be undertaken. In so doing, America will be able to

limit market failures such as regulating the supply of doctors, increase in price of healthcare services and above all increase the accessibility of healthcare services to all citizens regardless of their socio-economic status. After the adoption of the Beveridge model, the Australian and UK governments usually finance healthcare using tax levies and covers all citizens, who acquire all medical services free in government-owned health facilities (Joffe & 1999, p. 4). However, there are some exceptions where patients bears the cost of prescription drugs, eye and dental problems, but the cost is again regulated by the central authority (Bhattacharya & Hyde, 2013, p. 329). Sometimes, the government allows citizens to choose whether they should seek free medical services in government-owned health facilities or seek the same services in private health facilities for a “ regulated fee.” The adoption of the Beveridge model will allow the American government to operating in “ mixed market” economy, where the government takes full control, but allows limited influence of the private sector to determine demand of goods and services. Such a move will help in improving the quality of services rendered as well as reduce the cost of operation.

Reforming the health sector by adopting Health Technology Assessment

Apart from the adoption of the Beveridge model, the American healthcare sector should adopt a cost-effective analysis used in making health technological assessment aimed at reducing the ever-increasing cost of healthcare services (Bhattacharya & Hyde, 2013, p. 339). In this case, the central authority should have experts who determine which technologies and pharmaceutical should feature in the government-sponsored healthcare.

When pharmaceutical firms realize that the government (which is the sole consumer) of drugs or medical technologies is not willing to acquire them at a higher price, then suppliers will be forced to produce cost-effective health technologies and drugs that citizens will use.

Conclusion

The problem of skyrocketing healthcare cost in America has hindered many from achieving social desirable outcomes. Categorically, many Americans consider healthcare as a basic need, but some cannot afford it because of increased cost. Increased cost is caused the low supply of physicians, who cannot meet the available demand of healthcare thereby causing an increase in cost. Market competition in the healthcare sector triggers extreme movements of supply and demand for healthcare services, which makes the equilibrium price to remain high. Moral hazard is another problem characterized by adopting some behaviors that cause an increase in healthcare because of health insurance covers. To alleviate the situation, the American government is supposed to adopt the Beveridge model and make reforms such as initiating health technology assessment that will help the government to regulate prices thereby realize the social desirable outcomes. Indeed, it is true because some of the countries such as Sweden, Australia, and the UK made such reforms and their expenditure on healthcare is low compared to America.

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