

Role of Health Economics in Developing Countries

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Abstract—*The objective of this research is to study the increasing significance of health economics in developing countries. Health economics is a branch of economics which deals with the application of the principles and theories of economics to healthcare sector. Hence, health economics is the study of how scarce resources are allocated among alternative uses for the treatment of sick people and the promotion, maintenance and improvement of health standards in the economy, including the study of how healthcare and health-related services, their costs and benefits, and health itself are distributed among the various segments of a society. Thus, the main objective of the study is to identify the present and potential areas of health demand, and to suggest right health policies in terms of cost benefit analysis to the government.*

Keyword: *Health Economics, Health Care Sector, Health Policies, Cost Benefit Analysis.*

1. INTRODUCTION

Health economics is the study of how scarce resources are allocated among alternative uses for the treatment of sick people and the promotion, maintenance and improvement of health standards in the economy, including the study of how healthcare and health-related services, their costs and benefits, and health itself are distributed among the various segments of a society. It can, broadly, be defined as ‘the application of the theories, concepts and techniques of economics to the health sector’. It is, thus, concerned with such matters as the allocation of resources between various health promoting activities, the quantity of resources used in health services delivery; the organization and funding of health service institutions, the efficiency with which resources are allocated and used for health purposes, and the effects of preventive, curative and rehabilitative health services on individuals and society. Thus, health economics is the application of the principles of economics to healthcare sector.

The World Development Report (WDR) of 1993 views health as a basic human right and stresses the necessity of providing cost effective healthcare for the poor and that it can contribute towards alleviating poverty. Hence, understanding of health economics is essential for policy makers and for those guiding them.

The scope of health economics includes relationship between health status and productivity, financial aspects of health care

services, economic decision making in health and medical care institutions, planning of health development and such other related aspects. The distinguished features of health economics as a discipline are – health and medical care as economic goods, health as a private or a public goods, measurement of quality of healthcare system, stock of health issues, investment aspects of healthcare industry, loss due to ill health, burden of diseases, resource costs of different diseases, effects of health and medical care provision, planning of health and medical care, choice of technology in health care system, etc.

Health economics addresses the problems in healthcare sector both in positive and normative ways. The normative issues relate to what should be, for example, what should be the appropriate budget allocation for HIV/AIDS control.

The positive branch of health economics applies all modern micro economic theories in health care/medical care. Demand for health care, factors that affect the demand for healthcare such as income of individuals, their tastes and preferences, elasticity of demand for health problems, urgency of treating a disease, preference for public and private healthcare, supply of healthcare, etc., are the subject matters of positive health economics.

2. OBJECTIVES AND METHODOLOGY

- (1) To identify the present and potential areas of health demand,
- (2) To draw valuations in terms of market demand for health services,
- (3) To calculate the cost of delivering health services,
- (4) To estimate the real costs of acquiring health services in terms of time, loss of working days and wages, travelling cost and cost of travelling the distance to seek health care in terms of money as well as cost of not receiving timely treatment due to distance’; and
- (5) To suggest right health policies in terms of cost benefit analysis to the government. For example, a health economist can study the effect of levying user-charges in government hospitals on utilization of health services and accordingly may

recommend the government and planners the effective allocation of financial resources to the health sector and improving the health care delivery system.

A descriptive methodology, based on secondary data derived from books of eminent authors, research published works and from various sources is adopted for the purpose.

3. ROLE AND SIGNIFICANCE OF HEALTH ECONOMICS

Health economics is a branch of economics which deals with the application of the principles and theories of economics to healthcare sector. It addresses the issues such as the demand for healthcare services in the economy, allocation of resources for the development of healthcare facilities, their supply through public and private sector agencies and the gaps that exists between the demand for and supply of healthcare services in the economy. Healthcare services are limited in supply and the demand for healthcare services is ever-increasing and unlimited. Again, resources to meet the demand for healthcare services are limited in supply.

The demand for healthcare is a derived demand in the sense that it derives its demand from the state of health and awareness among the population of the country about significance of good health. Healthcare services are demanded by people as a means by which people achieve good health that builds the standard of human capital of a nation. Unlike other goods and services which are demanded for consumption, healthcare services are demanded for both consumption as well as for ensuring good health. Thus, health is a capital as well as consumer good.

Economic analysis, if applied properly, can often help to clarify what choices are for health policy, how to choose among different health services, how to decide what to buy and how to pay for it, and how to evaluate the end results of such consumption. The indirect effects of good economic thinking, when dealing with such questions as the best use of taxes, insurance and out-of-pocket payment, or the best way for governments to intervene in health, may affect a population's health and welfare more than decisions about how to combat particular maladies or risk factors. Thus, the main functions of a health economist include:

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- (4) To estimate the real costs of acquiring health services in terms of time, loss of working days and wages, travelling cost and cost of travelling the distance to seek health care in terms of money as well as cost of not receiving timely treatment due to distance'; and

(5) To suggest right health policies in terms of cost benefit analysis to the government. For example, a health economist can study the effect of levying user-charges in government hospitals on utilization of health services and accordingly may recommend the government and planners the effective allocation of financial resources to the health sector and improving the health care delivery system.

Although there is no satisfactory measure of health benefits derived from the health service expenditure a number of factors such as (i) assessment of productivity from good health, (ii) allocation of financial resources to healthcare sector on the principles of equity and (iii) application of basic principles of economics to healthcare sector, may help to assess the contribution made by healthcare sector expenditure to national productivity and national income. A critical study of health economics may bring in certain pertinent solutions to the problems faced by the health sector.

There is a strong correlation between increased healthcare expenditure and poverty reduction and long term growth. The burden of diseases and poor health act as barriers to economic growth in developing countries. Thus, good health is the single most important need essential for formation of human capital and growth of an economy. Therefore, the most important task before health economists is to address issues related to good health to facilitate health sector reforms to achieve equity in health care for a country's population.

Health economics is becoming a subject of increasing significance particularly in the developing countries primarily because of:

- (1) An economic climate where resources are extremely scarce and decisions on priorities are crucial but difficult;
- (2) A growing appreciation among health professionals and policy-makers that health economics and economists can help them formulate policies and make decisions;
- (3) The increasing maturity of the sub-disciplines of health economics; and
- (4) The growing of interest among economists and others in applying their economic skills to health issues.

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