

How Medical Markets Differ From Competitive Market

Posted on October 17, 2023

The healthcare market is different from the ordinary market as it determines whether people have good access to medical services or not when they become ill. In the competitive medical market, healthcare consumers benefit from the incentives that encourage service providers to improve their products and achieve a higher level of service performance. More significantly, competition in the market helps healthcare service providers to keep prices in check (Nichols et al., 2004). This paper evaluates how medical markets differ from competitive markets, what demand-side and supply-side market failures are, reforms through which medical markets can be more competitive, and whether competitive markets are responsible for the poor being disadvantaged in the healthcare system or not.

How Medical Markets Differ from Competitive Market

The Period before Managed Care

Health insurance coverage before the 1980s was primarily conventional indemnity insurance as a protection against loss. Consumers of healthcare services had to pay no cost for the medical services, and physicians were paid on a fee-for-service basis. Insurance companies such as Medicare and Medicaid greatly reduced beneficiaries' concerns and provided higher costs to the employers who paid their employees higher costs on the insurance premiums. At that time, restrictions were imposed on advertising and new-entry hospitals, and the tasks that healthcare providers were permitted to perform were restricted. Neither physicians nor patients had incentives related to the costs and use of the healthcare (Feldstein, 2015). Medicaid, in collaboration with federal and state governments, introduced regulatory approaches to greatly reduce the costs to physicians and hospitals.

The Period of Managed Care

The period of managed care was the reaction to the failed regulatory approaches the government imposed to limit rising healthcare costs. It was also against the system that brought about rising healthcare insurance premiums in the US. Employees were provided with health plans so that they would be able to negotiate healthcare costs with providers that were less expensive than insurance premiums. Employees, when given the choice to save on their monthly insurance premiums, switched to health plans as they were offered more appropriate cost-reduction measures. However, the

managed care plan faced a backlash by the end of the 1990s driven by those low-risk consumers with chronic illnesses who were forced to join Health Maintenance Organizations (HMOs) as those consumers had to face high premiums (Feldstein, 2015).

Demand-Side Market Failures

Demand-side market failures limit the expansion of competitive managed care, as health plans could become stronger if employers limit their employees' choices to one health plan. It is for many reasons. Firstly, when employees are unable to choose among substitutes, they are left with fewer incentives for the only plan being offered. Secondly, if an employer offers many health plan choices, he contributes more to the higher-cost health plan, which subsequently reduces the employee's incentive to select the cheaper plan. Thirdly, if the plan is offered with overlapping service providers, employees do not have real choices because providers make it difficult to control costs for the health plan. Lastly, many employers pay older insurers risk-adjusted premiums, which are more likely to incur large amounts of healthcare expenses than younger insurers (Feldstein, 2015).

Supply-Side Market Failures

Many medical service providers have a financial interest in the type of care they provide to their consumers, as the more they provide, the more they earn. Economists call this strategy "supplier-induced demand" to explain employers' financial incentives. This weakens the supply-side market forces, and the competition in medical markets fails as the quality of care physicians provide is lower, and the costs of medical services are higher (Feldstein, 2015).

Reforms through which Medical Markets Can be More Competitive

To improve healthcare firms in the competitive market, several reforms are needed in the private as well as government sectors. Firstly, the government should change the employer-paid health insurance policy so that employers' contributions should be treated as regular income to limit the tax-free cost. This change will determine what health plans employers should choose and how much insurance people should buy and use. In addition, the government should remove restrictions on laws promoting anti-competitive behaviours and on market entry (Nichols et al., 2004). On the other hand, in the private sector, employers should encourage their employees to choose health plans for fixed-dollar contributions. These reforms should be implemented to stimulate greater competition in the public as well as private sector medical market.

How Poor Are Disadvantaged in a Competitive Market?

In a competitive medical market, the poor are a bit disadvantaged because they are unable to buy

the necessary services and goods, but this is not because of the competitive medical market. The competitive medical market provides the most services and sells them at affordable prices to low-income employees. The competitive market aims to meet everyone's needs and ensures that every consumer, whether poor or rich, should receive the same healthcare services (Feldstein, 2015). However, I opine that it is the responsibility of the state to subsidize the healthcare of the poor to ensure that they receive the greatest value of medical services.

References

Feldstein, P. J. (2015) Health Policy Issues: An Economic Perspective.

Nichols, L. M., Ginsburg, P. B., Berenson, R. A., Christianson, J., & Hurley, R. E. (2004). Are market forces strong enough to deliver efficient healthcare systems? Confidence is waning. *Health Affairs*, 23(2), 8-21.