**Essay Question 3**

The Singapore government strongly emphasises shared responsibility between the government and people in the healthcare market. Individuals use monies in their Medisave accounts, government subsidy, medical insurance like Medishield Life and cash to pay for treatments. In recent times, the affordability of healthcare services has come under spotlight.

In the light of the aging population in Singapore, assess the effectiveness of policies available to the government in addressing the different sources of market failure in the healthcare market in Singapore. [25]

**Question Analysis**

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| Command | Assess – Consider the working, benefits and limitations |
| Content: | * Sources of market failure in the healthcare market * Policies available to address market failure in healthcare |
| Context: | Market : Healthcare  Country: Singapore |
| Approach | **First Part of Essay**  Cause: Sources of market failure   * Positive externalities * Imperfect information * Inequity   Other acceptable sources – asymmetric information, market dominance)  **Second Part of Essay**  Effect: Government implements policies to correct the market failure   * Government subsidies + Pioneer generation & Merdeka generation packages for aging population + Medifund –to assist low income household * Medisave Co-payment scheme & Medishield insurance * Public education   Criteria:   * Cost of implementation * Unintended consequences * Information available * Effectiveness in SR and LR |

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| **Intro** | **Market failure** occurs when the free market fails to bring about an efficientallocation of resources. It occurs where the marginal social benefit does not equal marginal social cost. It can also occur due to inequitable distribution of income. Hence both inequity and existence of positive externality may lead to an undesirable allocation of resources.  In this essay, I will explain the various sources of market failure in the healthcare industry and evaluate the polices in place to address them in Singapore | Definition of market failure  Contextualisation  Overview for the first of the essay |
| **Point 1** | One source of market failure in the market for healthcare is the presence of positive externalities.  Positive externalities are benefits borne by third parties who are neither the produce nor consumer of the good without payment. Positive externalities give rise to external costs that cause a divergence between MPB and MSB.  Costs/Benefits  MPC=MSC  Deadweight loss    MEB  MSB=MPB+MEB    MPB    0 Qf Qs No. of patients  **Fig 1: Market Failure in healthcare market due to   Positive Externalities**  Driven by self-interest, free market equilibrium is attained at MPB=MPC at Qf where net private benefits are maximised. MPB of taking a vaccination is the benefits that the person receives due to him/her being protected from the disease. while the MPC is the cost of the vaccination to the person. Assuming no negative externalities, MPC=MSC. Consumption of the vaccination generates **positive externalities** for employers and co-workers. The employers and other workers benefit as fellow workers are in better health and reduce chances of contracting the disease from the fellow workers. This is important to the economic growth of the country as productivity rises with better health of workers. This results in a divergence between MPB and MSB in the form of the MEB. Socially optimal output level is achieved at Qs where MSB=MSC where society’s welfare is maximised. Thus, there is an under-consumption of Qf-Qs. This generates a deadweight loss of area (shaded), where MSB>MSC over the QfQs. This results in allocative inefficiency and therefore market failure.  The presence of positive externalities are thus a source of market failure in the healthcare market. | Point – Positive Externalities  Explanation & Example  Link to question |
| **Point 2** | Another source of market failure in the market for healthcare is imperfect Information.    The market failure in the market for healthcare is worsened by the presence of imperfect information such that the output level in the free market may be even lower than Qf in Fig 1.Imperfect information of consumers will cause a deviation between MPB perceived and MPB actual, (MPB perceived < MPB actual) as shown in Fig 2. As consumers underestimate their private benefit, they will under-consume. Individuals generally underestimate the benefits of taking a vaccination or seeing a doctor when they are ill. They underestimate the benefits like better pay, better status, greater opportunities for growth, etc. that come with the higher productivity that comes with consuming healthcare and remaining healthy.  Costs/Benefits  MPC=MSC  Deadweignt loss    MPBactual    MPBperceived  0 Qp Qf No. of patients  **Fig 2: Market Failure due to Imperfect Information**  Hence they underestimate the private benefits that they are likely to enjoy as a result of consuming more healthcare. Without government intervention, the consumption of healthcare will be at Qp which increases the level of under-consumption and therefore the deadweight loss in the market for healthcare. This results in further allocative inefficiency and market failure.  Thus, imperfect information may be another source of market failure in Singapore. | Point – Imperfect Info  Explanation &  Example  Link back to question. |
| **Point 3** | A third source of market failure in the healthcare market may be inequity, especially with the aging population scenario in Singapore.  In a free market, goods and services are allocated to consumers according to the consumer’s ability and willingness to pay for them. Consumers signal their ability and willingness to pay using dollar votes. The higher the dollar vote, the more resources will be diverted to the provision of the good or service. The free market hence finds no incentive to cater to the needs of those who are not able to pay for the good even if they need them the most. In the healthcare market, consumers from the low income households or aged will have less dollar votes as compared to consumers from high income households.  As a result, private producers will only provide healthcare services to the consumers from higher income households with higher dollar votes and not for consumers from the lower income households. This will result in resources to be diverted away from the low income households to the high income households in the healthcare market. Thus resulting in the healthcare needs of the low income households not to be met.  Hence, the use of dollar votes in the free market, results in inequity which leads to market failure as the poor and the aged do not have access to the good which is a necessity. | Point - Inequity  Explanation &  Example  Link to question |
|  | Students may also explain the following:   1. Asymmetric information where doctors know more than patients 🡪 over-prescription of medicines and tests (supply induced demand), especially when patient is covered by medical insurance 🡪 over-consumption of healthcare. 2. High barriers to entry in healthcare industry due to high start up costs 🡪 few firms with significant market power in the industry 🡪 firms will cut quantity and increase price to maximize profits 🡪 P>MC, resulting in allocative inefficiency and therefore market failure. |  |
|  | As such, to alleviate inefficient allocation of resources and inequity, the government would need to intervene to correct the market failure. | Short summary for first part of the essay |
| Part b) | The Singapore government uses a range of government policies to reduce the under-allocation of resources in the market for healthcare as well as to keep it affordable to all income groups. In this part, I will consider the effectiveness of a few of these policies in addressing the market failure in the healthcare market by considering the cost of implementation, the unintended consequences, the availability of relevant information, its ability to address the root cause of the market failure and its ineffectiveness in the short run. |  |
| **Policy 1** | Subsidies are used by the Singapore government to increase provision of healthcare services as well as to make it more accessible to the poor.  Subsidies equal to the MEB at Qs help to reduce the cost of provision to the firm from MPC to MPC\*, reducing the prices of healthcare services from P1 to P2 as shown in Fig 3. This increases the quantity consumed to the socially optimal level at Qs, eliminating the deadweight loss to society.  Figure 3: Effects of subsidy in healthcare  MPB  O  MPC = MSC (assuming MEC=0)  MSB=MPB+MEB  Costs, Benefits  **Qf**  **Qs**  Quantity of healthcare  Subsidy = MEB at Qs  MPC\*= MPC with subsidy  **P3**  **P1**  **P2**  The government also provides targeted subsidies for the poor like Medifund, which further reduces the out-of-pocket cash payment they incur, making healthcare services more affordable to them.The low income households may also include many elderly. In addition, pioneers and elders, holding Pioneer Generation card, Merdeka card and/or the Community Health Assist Scheme (CHAS) card can seek services at private clinics paying subsidised consultation fees. This helps to resolve the inequity in the market for healthcare, especially among the aged. | Point  Explain  Example  Link back to question |
| **Limitations of Policy 1** | However, the use of subsidies to increase consumption and make healthcare more affordable may have some limitations.  Firstly, the government may not have accurate information to give an **accurate valuation** of the external benefit. Thus, the government may not know the optimal amount of subsidy to give to attain the socially efficient output. Over or under-subsidising may result in continued inefficiency and welfare loss to society.  In addition, due to the high government expenditure required, particularly given the aging population in Singapore, government my only be able to use subsidies as a short term measure as the opportunity cost of spending on subsidies may be very high especially given the slowing Singapore economy.  In addition, due to imperfect information, some of the elderly may not know how and when to use the card(s) issued to them to enjoy subsidised healthcare. |  |
| **Policy 2** | The government may also use legislation to correct under-consumption in the market for healthcare.  The government has made it compulsory for all working adults to set aside 8-10.5% of their income in Medisave and to use part of this Medisave funds to purchase medical insurance in the form of Medishield Life for themselves and dependents to help defray the cost of healthcare. The use of Medisave funds and Medishield Life helps the individual to reduce the out-of-pocket cost of medical services, reducing the MPC to the patient and their family members, thus increasing consumption of healthcare services.  This thus corrects the under-consumption of medical services in the healthcare market while keeping healthcare affordable. | Point  Explanation with Examples  Link back to question |
| **Evaluation of Policy 2** | However, the purchase of such insurance may result in unintended consequences in the form of moral hazard. Once insured, he insured may engage in risky activities that would result in them needing more medical treatment since they do not bear the full cost of their treatment.  To prevent behavior, it is important to ensure that the insurance policy does not pay for 100% of the treatment with co-payment from individuals or family members involved.  The issue of the elderly not knowing when they can use their Medisave and Medishield Plus is again a significant issue.  Moreover, with aging population, higher healthcare costs and longer life expectancy, many elders, especially those with chronic health condition, may have used up their Medisave savings fully and may have to depend on their children to use their Medisave to help them cover their medical costs. In the longer run, this would mean that the children may have less in their Medisave accounts for their own twilight years and would have to depend on their children, resulting in a vicious cycle of individuals always depending on their children. |  |
| **Policy 3** | The government may also use public education as a measure to correct the imperfect information as well as to get individuals to voluntarily internalise positive externalities in the market for healthcare services.  Since under-consumption in the healthcare market is also due to the presence of imperfect information, public education may be necessary to equip consumers with more information about the benefits of healthcare services including health screening.  Public education is actively done by the Singapore government to promote healthy living. Posters and advertisements encouraging the public to pursue a healthier lifestyle through a healthy diet and exercise are prevalent. Such strategies are also used to encourage health screening like the publicity given to diabetes and breast cancer. For e.g. organisations like the Breast Cancer Foundation and National Cancer Centre provide awareness programmes like talks, roadshows about the importance of early detection of breast cancer during breast cancer awareness month in October to encourage more women, especially elderly women to do the mammogram. The government also requires all hospitals to provide information on the cost of common medical procedures on its website to allow consumers to make more informed choices. In addition, the government also holds road shows and advertisements to help the elderly know more about their Pioneer or Merdeka Generation cards.  These public education efforts seek to improve the resource allocation of healthcare services in Singapore, through improving the level of information for the public.  Such efforts would help consumers of healthcare voluntarily internalize the MEB from consumption of healthcare while closing the gap between perceived MPB and actual MPB addressing the root cause of positive externalities and imperfect information at the same time. | Point  Explanation and example |
| **Evaluation of Policy 3** | Such type of public education efforts may be costly to implement with uncertain outcome as it takes time for mindsets to change.  However, such efforts may be necessary to address the root cause of the market for healthcare.  In addition, The government may also have to look at how to make such information more accessible to the elderly. These efforts may be less effective among elderly if they are not presented in a language or a platform that they are comfortable with. |  |
| **Evaluative conclusion** | The Singapore government has a myriad of strategies in place to address market failure in the market for healthcare.  These policies aim to address the problems of under-consumption through the provision of subsidies and legislation. In addition imperfect information is addressed through public education while inequity in the market through targeted subsidies like Medifund as well as medical subsidies to holders of the Pioneer Generation or Merdeka Generation Cards.  In the light of ageing population, the equity issue is likely to worsen in the future which might severely increase the burden on the Singapore government. To address this issue, the Singapore government has moved towards more targeted subsidies through means-testing, where subsidies are given according to the household income instead of blanket subsidies for all. The government is also expanding hospitals and building more community hospitals to provide cheaper alternatives to the people in an effort to ensure that there is sufficient healthcare facilities available to all at affordable prices. This also encourages greater competition in the healthcare market which would also improve the quality of healthcare provided. The government could also consider raising the proportion of CPF that goes into Medisave to reduce burden on children. | Stand  Substantiation  Something Special  in the context of Singapore. |