

# BENEFITS AND COSTS OF HEALTH CARE PROGRAMMES

**Dr.V.SATHIYA**

Assistant Professor

PG & Research Department of Commerce

Government Arts College

Dharmapuri - 636 705

## Abstract

In this paper, the researchers critically appraise the application of welfare approach from both conceptual and empirical perspectives. The alleged limitations of the welfare approach are essentially limitations in its application, not in the capacity of the approach to accommodate the concerns of extra-welfare. Moreover, the arguments used to justify the application of the extra-welfare framework are essentially welfare. The methods used to measure quality adjusted life years share their basic theoretical roots with welfare valuation methods, such as willingness to pay. Willingness to pay provides a method which performs better with respect to those challenges. In the context of evaluating alternative allocations of health care resources we are left asking what is 'extra' in extra-welfarism.

**Key words:** Healthcare, economic evaluation, willingness to pay, quality adjusted life years, etc.

## 1. Introduction

Within the field of health economics, economic evaluation has been defined as a method of insuring that the value of what is gained from an activity out weights the value of what is sacrificed and hence incorporates both technical and value judgment. A considerable health economics literature has developed on alternative approaches to measuring the values of healthcare interventions that covers, inter alia, quality adjusted life years, healthy years equivalent and willingness to pay. The willingness to pay approach is derived directly from welfare economic theory and hence is generally recognized to be conceptually appropriate for establishing individuals' values from welfare perspective.

## 2. Conceptual basis of extra-welfare

The approach in health economics is aimed at the adoption of Sen's notion of capabilities to the problem of resource allocation in health care. Resource allocation in health care is based on two main assumptions: social welfare is a function of individual utilities, and individual utilities are a function of the commodities consumed by those individuals. A third assumption, that individuals are the best judge of their own well-being is often but is not strictly a requirement of the approach. Culver considers this assumption restrictive in analyzing social welfare because under such assumptions social welfare is independent of non-utility aspects of alternative allocations of resources, and individual utilities are independent of non-goods characteristics of individuals. The approach involves relaxing these assumptions by allowing non-goods characteristics to be an important class of social welfare. Under the approach, the effect of non-

goods characteristics is not determined by the utility consequences of these characteristics to individuals.

### **3. An appraisal of the application of extra-welfarism in health**

Characteristics and social welfare under extra-welfarism in health, individuals' utilities are insufficient as a basis for measuring social welfare. However, the particular characteristics to be used in preference to utilities, and the way the information is to be considered alongside information on utilities remain unclear. Under a decision-making approach to economic evaluation the element of the social welfare function as well as the weights attached to each element within the function are determined by decision makers. Normatively states of the world are judged to be better when people are healthier than when they are not. Consequently effective health care is better than ineffective healthcare, where effectiveness is defined in terms of the impact of resources on health.

### **4. Welfare and extra-welfare: Reconciliation**

Extra-welfarism approach in health, far from offering anything extra to the approach, depends on several aspects of welfare, some of which represent special cases within the broad framework. The usefulness of both welfare and extra-welfarism approaches have been challenged based on features that are shared by both. The particular features of concern are: consequentialism, unit-dimensionality and the failure to accommodate issues of justice. Welfare economics and non-consequential considerations under the welfare framework an intervention can have only instrumental value for achieving a predetermined outcome. Hence, the approaches ignore matters of process and issues of duty or fairness. However, the concepts of caring externalities and utility from processes of care represent ways of accommodating these considerations within the welfare framework. For example, willingness to pay was used to measure individuals' preferences for different processes used to health screening. Birch, et al, measured individuals' willingness to trade off particular commodities in return for some other non-health commodity was measured. In principle, therefore, the range of attributes to be considered is not limited by the measurement method.

### **5. Conclusion**

The purpose of this paper was not to challenge Sen's concerns with the traditional welfare framework, but to critically appraise current applications of the extra-welfare concept to the problem of resource allocation in healthcare. The proponents of extra-welfare draw on Sen's concerns with the welfare approach, for example the inability to desire adequately, to justify the extra-welfare perspective. The extra-welfare response to this involves rejecting individuals' preferences, or at least supplementing them with the preferences of others i.e. imposing

preferences of others on individuals. In contrast, under Sen's approach, attention is focused on the opportunity set of the individual. Individual preference remains paramount and the challenge is to address inequities in opportunity sets.

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