



LETTER TO EDITOR

## The Role of Tariff Setting in the Healthcare Market Equilibrium

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### ABSTRACT

Healthcare pricing is intricate and influenced by numerous factors, including market structures, government regulations, access to financial resources, service costs, supply and demand. Due to this complexity, government intervention is frequently necessary to ensure equilibrium in the system. Relying solely on market forces (invisible hand) can create challenges for both healthcare providers and patients. For example, high tariffs can deter patients from pursuing essential care, leading to poorer health outcomes and contributing to economic challenges such as decreased productivity. On the other hand, low tariffs might create excessive demand for services, resulting in resource wastage and a decline in quality. Policymakers must strike a balance that emphasizes health considerations while also taking into account the medical education system, relevant laws, and political factors when establishing healthcare tariffs. The way these tariffs are determined not only affects healthcare access but also has broader implications for economic growth and workforce productivity. This highlights the need for careful management of healthcare tariffs to support both public health and economic performance.

**Key Words:** Tariff Setting, Healthcare, Market

### Introduction

The healthcare market has unique characteristics that prevent it from reaching equilibrium at an optimal price, as seen in a free market. In this context, suppliers and consumers exhibit distinct traits that the “invisible hand” cannot effectively balance. Consequently, government intervention is necessary to achieve equilibrium. The government's goal is to establish an optimal price, commonly referred to as a tariff. The impact of the determined tariff can be analyzed from various perspectives(1).

The setting of healthcare tariffs directly affects the demand for these services. If a tariff is set at a high level, and other factors remain constant, it is expected that the demand for health services will decrease. Part of this reduced demand may be related to unnecessary health services. When tariffs increase the cost of these services, some consumers

may choose to forgo them. However, a portion of the reduced demand is also linked to essential health services. As tariffs make these critical services less affordable, access to necessary healthcare diminishes, which can worsen the overall health status of the population. The impact of tariffs on health service demand is complex, as it affects both unnecessary and essential care. Therefore, careful consideration is essential to ensure that tariffs do not create barriers to accessing vital healthcare services(2).

In economics, unmet demand is often regarded as a significant driver of inflation. When healthcare tariffs are set too high, access to services diminishes, leading to substantial unmet demand that can contribute to inflation within the healthcare sector. Additionally, a population with

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limited access to healthcare tends to be less productive, which can hinder overall economic growth. Poor economic performance results in lower government and household revenues, reducing the resources available for healthcare. This creates a vicious cycle in which insufficient financial resources lead to worse health outcomes. Consequently, high healthcare tariffs can have far-reaching macroeconomic effects, including inflation in the healthcare sector, decreased productivity, and constrained resources for healthcare services. These considerations should be taken into account when determining tariff policies in the health sector.

If tariffs are set at a low level, the demand for healthcare services may rise. Lower prices can enhance access, allowing patients to address both necessary and unnecessary healthcare needs. In this situation, the efficiency of health resource allocation may decline, as the system struggles to focus resources solely on essential care. Consequently, patients might pursue unnecessary services alongside necessary treatments.

The impact of tariffs on the demand for health services extends beyond the healthcare sector, influencing broader national economic indicators. Low tariffs can result in reduced efficiency and wasted resources, leading to lower Gross Domestic Product (GDP), decreased labor productivity, and increased overall health costs. A nuanced approach is essential to optimize the effects of tariffs on both the health sector and the wider economy(3).

On the supply side, healthcare tariffs can have significant implications. If tariffs are set at a high level, providers may be encouraged to provide more services to increase their revenues. This can lead to an increase in the number of providers as they plan to invest in increasing profits.

However, this expansion of supply may not necessarily align with the optimal allocation of resources. Significant financial resources could be spent on building infrastructure and establishing new healthcare facilities, such as hospitals, without a clear alignment with the most pressing needs. As

a result, the efficiency may decline. On the other hand, the decrease in demand caused by high tariffs can also harm suppliers and reduce their incomes. In some cases, especially in low-income areas, this could lead to providers going bankrupt and being forced to exit the market. Therefore, high tariffs can have negative effects on the supply side as well, including reduced efficiency, decreased motivation among providers, and lower incomes for healthcare professionals. A thorough evaluation of tariffs' impact on both demand and supply in the health services market is crucial for creating an efficient and equitable system that addresses the population's needs.

Low tariffs on health services can also affect the motivation and behavior of suppliers. One key economic effect is the potential for "induced demand." Providers, acting as representatives of patients and aiming to increase profits, may prescribe unnecessary or additional services. This can lead to higher overall healthcare costs and reduced efficiency in resource allocation within the sector. Additionally, low tariffs can diminish healthcare providers' motivation to deliver high-quality services. While low tariffs may increase patient access to healthcare, the quality of services provided could potentially decrease.

Policymakers must carefully balance the trade-offs between improving access to healthcare through low tariffs and maintaining the motivation and incentives for providers to deliver quality services. Striking the right equilibrium is crucial to ensuring an efficient and effective healthcare system that meets the needs of the population. Strategies such as targeted subsidies, quality-based reimbursement models, and investments in provider training and development may help mitigate the potential negative impacts of low tariffs on the supply side of the healthcare market.

For example, a country's educational system plays a significant role in the quantity and quality of training for physicians, nurses, and other healthcare professionals who serve as providers. The balance of market dynamics and supply-demand within the healthcare workforce can

directly affect tariffs for health services. Additionally, a country's laws and policies, as well as the strictness of enforcement, can influence the licensing and facilitation of activities for healthcare service providers. The political system and the influence of pressure groups within the health sector can also shape the process of setting tariffs and allocating resources within the healthcare system. A comprehensive and multifaceted approach should be taken when determining health service tariffs. By considering the complex interplay of educational, legal, political, and market factors, policymakers can strive to achieve a balanced healthcare system that optimizes access, quality, and macroeconomic outcomes for the country.

As mentioned, healthcare tariffs are influenced by multiple factors, including public spending, service delivery costs, and the political context. For example, in the United States, there is a critical need for effective strategies to address escalating healthcare costs, which have significant repercussions for individuals and the economy as a whole. Several approaches have been proposed to tackle this challenge, including healthcare price regulation and global budgeting. These strategies aim to enhance affordability and manage healthcare expenses more effectively. Price regulation involves setting limits on the costs of medical services, which can help prevent excessive charges and ensure that care remains accessible. Global budgeting, on the other hand, establishes an overall spending limit for healthcare services within a specific timeframe, allowing providers the flexibility to allocate resources as needed while staying within budget constraints(4).

Iran healthcare tariff system faces challenges due to disparities between public and private sector tariffs, with public health spending at around 7% of GDP often insufficient to cover rising costs (5).

Countries like Brazil, India, and Indonesia impose high pharmaceutical tariffs—14%, 10%, and 5%, respectively, affecting lower-income populations' access to essential medicines (6, 7).

By adopting a comprehensive and holistic approach that considers these multifaceted elements, policymakers can develop tariff policies that effectively balance the needs and incentives of all stakeholders in the healthcare system. This approach is essential for ensuring an efficient, equitable, and sustainable healthcare system that meets the evolving needs of the population.

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