

Analysis on the Application of Chinese Public Goods in Health & Insurance Area

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ABSTRACT

In our daily life, public goods and programs are familiar to us. It is not exaggeration to say that all countries in our world have public goods. Public goods include things like policies, roads, parks. In fact, when firefighters jump into a burning house to save your dog, or when you are fined for speeding on the highway, these are symbols of public goods application. It is clear that public goods and programs have significant role in the whole economy, so the main idea of this paper will focus on the application of Chinese public goods and programs. Nowadays, the application of Chinese public goods is relative mature, but there are still some problems, such as which showed in the Health & Medical insurance area, need to be solved and improved by making further appropriate policies. The result of this paper is that for the application of public goods, the production equilibrium should achieve between market and government in order to promote the production effectively from the whole society perspective.

Keywords: *Public goods, health insurance, public goods policies, pros&cons analysis, public goods application*

1. INTRODUCTION

As the health & medical insurance developed in China for several decades, there are different comments on this public good. The fact is that most of people state positive point of view to the health & medical insurance, and some of them also propose things that are needed to reconsider and improved under current Chinese society. In this paper, due to these suggestions and problems proposed by people currently, the author would focus arguments on Health & Medical insurance area as an evidence of Chinese public goods application to analyze whether there are problems need to be fixed.

1.1. Basic Concepts and Characteristics of Public Goods

1.1.1. Definition

Firstly, in order to get better understanding on what Public Goods is, there are some basic concepts and theories of Public Goods need to be known. According to Ray&Anderson, , “A public good is a symmetry of a private good, a non- excludable good that has a non-rival consumption and non-divisibility utility” [1]. Sometimes, there are also some conversions between public goods and private goods: the main reason for this conversion is that whether people should pay for the using of these goods. If they need to pay, we define these kinds of goods as

“Quasi-Public goods” [4], which is between pure public goods and private goods. A typical example of “Quasi-public goods” is education. China’s education is strictly defined as a public program for its existence of nine years compulsory education; but from high school, students can decide to pay for their further education or give up, and depending on the type of college, the amount of payment is different. In this way, education does not belong to pure public programs, but it is a combination of private and public goods.

1.1.2. Characteristics of Public Goods

According to the theory of public goods, there are three characteristics of public goods and programs (Figure 1).

1.1.2.1. Non-excludable benefits

The first one is Non-excludable benefits. Private goods can only benefit people who pay for them. However, anyone who consumes public goods does not exclude others benefiting from them. The view was expressed that public goods should be excluded from technology such as identity verification or face recognition, but it was almost impossible or the costs were impossibly high. Therefore, the benefit from public goods cannot exclude the “free rider problem”, which means some people don’t pay for their use of goods but they actually consume and benefit from goods.

1.1.2.2. Non-rival consumption

The second one is Non-rival consumptions, there are two meanings of non-rival consumption. One is the marginal cost equals to zero, which means increasing the consumption of a consumer does not lead to an increase in total costs for producer. Another is that the marginal congestion cost is almost zero or very small. The consumption of each consumer does not affect the quantity and quality of consumption for other consumers. It is non-rival in consumption and belongs to the goods of benefit sharing. Whether the marginal congestion cost equals to zero or not is an important criterion for distinguishing pure public goods and Quasi-public goods.

1.1.2.3. Non-divisibility utilities

The third one is Non- divisibility utilities. Pure public goods are non-divisibility, and their consumption is shared by many consumers on the premise of maintaining their integrity. Unlike private products, it can be divided into

many units that can be bought and sold. For example, the traffic police, the security benefits it brings to people cannot be separated for anyone.

1.1.2.4 Market failure

Last but not least, according to the Western economic theory, "market failure" happened in the production of public goods, it is hard to achieve "Pareto optimality" simply by market mechanism. As discussed earlier, the non-excludable benefit of public goods indicates it is inevitable that the negative externalities of "free rider problem" will happened, which is difficult to achieve the maximum public profits for all members in the society. Therefore, it is necessary for the government to intervene in the market, provide public goods by government monopoly, or share with the market in the production of public goods.

	Rival in consumption	Nonrival in consumption
Excludable	Private goods <ul style="list-style-type: none"> • Wheat • Bathroom fixtures 	Artificially scarce goods <ul style="list-style-type: none"> • Pay-per-view movies • Computer software
Non-excludable	Common resources <ul style="list-style-type: none"> • Clean water • Biodiversity 	Public goods <ul style="list-style-type: none"> • Public sanitation • National defense

Figure 1 Characteristics of Public Goods

1.2. Public Goods Production by Government

1.2.1. Advantages

The benefits of government production on public goods in Medical & Health insurance area could overcome most of the shortcomings of market production. As the market failure theory noted in the previous section, markets cannot effectively supply these public goods, which are in huge demand and have very low profits. However, the shortcomings of the market production can reflect advantages of government production. The fundamental idea of government production is satisfying the aggregate demands of public. For this purpose, the government can supply public goods from the macro-economic perspective of the whole country in order to control and coordinate the overall arrangement. Besides, in some degree, the government mechanism makes up for the shortcomings of market mechanism in the production of public goods.

Specifically, if citizens are paying taxes to the government and the Government provides public goods to citizens, then we can imagine taxes are the prices that the government has to charge for the production of public goods. As a result, the "free rider problem" has been extremely diluted because everyone has to pay for the use of public goods or programs. Although the prices paid are differentiated from each other, the total efficiency of government production for public goods is closer to the "Pareto optimality" compared to market production.

This point could be showed well on the establishment of Chinese Health & Insurance area. In 1970s-1980s, Chinese social insurance system has not yet been established. During that period, there are only a few of western medicine and modern hospitals, so the price of medicine is significantly expensive, normal middle-class families could not afford those expensive medical consumptions. It is no exaggeration to say that a penicillin may have cost up to 1000 RMB, so the treatment became a luxury in that case.

However, things are changed since 1994. In this year, Chinese government established the medical insurance

officially. It means that most of the people can afford the medical treatment because the government will take part of money, which almost 1/6, from their salaries and they can get their own medical insurance cards. When they are going to the hospital, they just need to show their cards and they can buy medicines, see doctors at a really lower price. In this way, medical treatments are not luxuries for most of people and citizens life quality in China would be improved by the government production of Public goods significantly compared with time in 1970s. Based on these facts that medical treatments are not luxuries totally for people to use, that the benefits of government production in public goods is convincing enough. [2]

1.2.2. Disadvantages

On the other hand, when we are thinking that the officially establishment of Health & medical insurance is pretty good in China, we also need to think about the disadvantages critically. Before the analysis of shortcomings, here was a background we need to know: Since the 1970s, after the practicing of the "government intervention market" put forward by the Keynesianism school represented by Keynes, the phenomenon of low economic growth rate, high inflation rate, fiscal deficit cause a new economic problem appeared— "stagflation" (Figure2)[3].

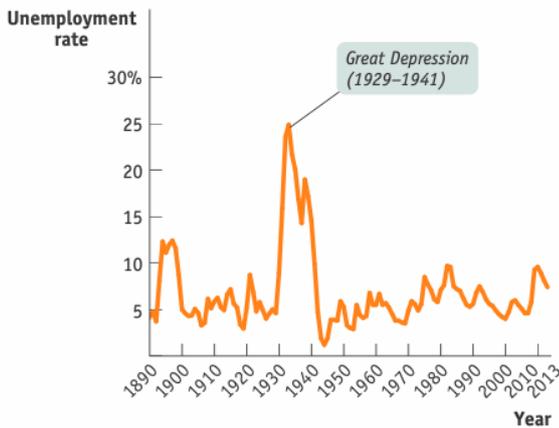


Figure 2 Unemployment rate of the Great Depression

For public goods, it is reflected that the increasing in government fiscal expenditure, but the insufficient quantity of public goods, and decreasing in varieties, qualities of public goods are difficult to meet the people's growing demands for public goods. Thus, it is clear that the Government is not an absolute perfect presence in the production of public goods.

Actually, it could be considered that the main reason is belonged to the government working system. To be more specific, officials are more willing to compete for power and positions to ensure their ow interests than providing well-qualified public goods to people, in which case the efficiency becomes low again. Since there is no bankruptcy pressure on the government itself, the government workers do not have enough motivation to

carry out a precise budget plan. As a result, it leads to the waste of large amount of financial expenditure and the quality of public goods could also not satisfy people's expectations.

One of the most important shortcomings of Medical & Health Insurance area in China is that the management systems are separated and there are no effective links between government policies and management system. The current basic medical insurance for urban workers is managed by the labor security, and the rural medical insurance is managed by the health department.

This is the fact that medical insurance management system is separated, on the one hand, the management cost is increased. The government need to pay double more salaries to those workers, also include the cost of other important resources that be used in the work, Conversely, it also brings some crossover in the program between different regions of people. For instance, if people move from rural areas to cities to work and when they want to buy medicines or go to the hospital, they could not realize which department should be response for their medical insurance. From a more convenient perspective, labor security is a better choice, but their insurance identities are recorded in the health department and the medical insurance policy doesn't mention this kind of special situation clearly. Therefore, according to these disadvantages, advanced public goods policies and innovational ideas are needed to solve the problem for the application on Chinese public goods, especially solve the management system problems in the Health & Medical insurance area.

1.3. Suggestions to Improve the Development of Public Goods in China

In order to solve this problem, here are two possible ideas. In the environment of urbanization, increased population movements, and frequent changes in the status of personnel. The government should ensure how the departments and related policies can effectively link those changes. Meanwhile, we must consider the differences between urban and rural economic and social development. The first way is the adjustment of the management systems, gradually breaking the boundaries of managers identities to better meet the demands of people in different regions. Specifically, different management departments can be responsible for the people in different regions, but the internal information system and the identities of insured people should be almost same. The second one is to solve the problem of the change in the identity of insured people, those people may often face the transition from employment to unemployment and employees to residents. Therefore, the government should formulate clear policies to explain how the management system should be connected when citizens change their identities. For example, how to convert the payment period, how to deal with the waiting period, and which departments the insured people should

pay for supplementary medical insurance. Clear details such as the points mentioned above could effectively link the work of different departments, and make the system runs more efficiently.

2. CONCLUSION

From the analysis in the passage, it's obvious that neither government or market is the perfect producer of public goods, so this returns to an unavoidably topic in Economics—Equilibrium. For the application of public goods, the production equilibrium should achieve between market and government in order to promote the production effectively from the whole society perspective.

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