

Economic Theories and the Health Market: A Look at David Ricardo's Theory in the Context of Health Economics in Mozambique

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ABSTRACT

This article focuses on the Economic Theory of the Health Market, based on the contributions generated by David Ricardo's Economic Theory, commonly known as Ricardian Theory, which for this article will be referred to as Ricardian Economics (RE). Methodologically, documentary research was carried out, using Google Scholar, open websites and academic institutions, based on the search for keywords such as Ricardian theory, health market. It was also possible to visit articles and dissertations, which allowed us to verify that RE cannot find a standard capable of measuring the value of all things [a fact that can be inferred in the analysis of the health market, through health economics] and that the market has its specificities to respect in order to implement a particular economic policy.

Keywords: Economic Theories, Ricardian Economics, Healthcare Market

INTRODUCTION

More than 200 years later, “David Ricardo’s thought remains vigorous, appearing in many of its aspects in economics textbooks [including Health Economics-HE]” (Silva, 2003).

However, the economic approach emphasized by Ricardo (which in this article we will call Ricardian Economics-RE) addresses, among other things, the economic segments that involve taxation and, as a concrete case, the non-protectionism of the state, such as that of cereals imposed by the British Government; the theory of comparative advantage (also addressed by Adam Smith), the theory of stagnation, among others.

Therefore, relating ER to the healthcare market—through ES, the latter having unique specificities in which competition is not called upon, namely, the irregularity of service demand, the unpredictability of service demand, and the considerable probability of reduced personal integrity (Souza, 2021)—proves to be a challenge, measured by the aspects to which Ricardian theories are entitled, since, according to Santere and Neu (2010), health economics bases its economic principles on several subdisciplines [including Ricardian economics].

Given that his work marks the appearance of economics as a fully constituted science with object and method (Holanda, 1996:5, cited in Silva, 2003), it is clear to seek a better understanding of Ricardian interference in ES, and for this purpose, the research adopted a qualitative methodology using the technique of bibliographic review of books, articles, and dissertations. Similarly, documentary research was conducted online, using official government websites and public websites.

Problem

In his approach to “Institutional conditions of Ricardo’s time and the influences he suffered,” Silva (2003), citing Ricardo’s book entitled “Principles of Political Economy and Taxation,” emphasizes that Ricardo, drawing on the ideas and contributions of Adam Smith, Jean-Baptiste Say, and Thomas Malthus, discusses his

reflections on different points of economics, highlighting the elaboration of the labor theory of value and comparative advantage.

From this perspective, it supports the discussion of ER and its influence on ES, in terms of being comprehensive from a methodological standpoint and doing justice to some of the theories presented, when it evokes, for example, the non-interference and/or protectionism of the state regarding goods and services (in the case of cereals), since, as it argues, the role of the state should be that of a facilitator, therefore, the compression of the health market from the perspective of ES, as Matias (1995) argues, must address 3 fundamental components: i) the object of choice, which in this case consists of the good health care; ii) the behavior of the demand agent, which here is the patient; iii) the behavior of the supply agent, which here will be the health sector professionals, namely doctors, nurses, hospital administrators and other support staff, so the statement that supply generates its own demand (Ricardo, 1976) conveys this objective.

Viewed from the perspective above, the question that arises aims to discuss the methodological foundations of David Ricardo and their application in the field of the Mozambican health market through ES.

David Ricardo's Contributions to Modern Economics

Silva (2003) states that, from an ideological point of view, Ricardo was influenced by the ideals of liberty, equality, and fraternity of the French Revolution. Moreover, not only Ricardo, but some sectors of the European elites harbored a certain sympathy for the conflict, notably for its insurgency against the absolutist and aristocratic tradition. The new phase of capitalism, now asserting itself, required the materialization of these ideals.

From an intellectual standpoint, considering the influence he received from Smith, Ricardo, to a greater or lesser degree, directly or indirectly, also received influence from other economists of his time. A contemporary of Thomas Malthus, Ricardo accepted the theory of population and even Malthus's ideas regarding workers and the causes of poverty. But, regardless of the weight of these points in common, both were intellectual adversaries with marked disagreements. This relationship, however, always remained confined to the realm of ideas, since the two maintained deep friendships and mutual admiration throughout their lives.

Therefore, it follows from the above statements that Ricardo was open to analyzing even divergent economic fields, in order to reach a consensus on differences without ceasing to consider opposing ideas. For this reason, Luna (2021) highlights the fact that Ricardo not only adopted but also perfected Jean-Baptiste Say's assumption, which essentially stated that supply generates its own demand, thus making the hypothesis of a systemic crisis inadmissible. This phenomenon would therefore be circumstantial and possible only in particular sectors, never in the economy as a whole. If the price of a commodity increased, the extraordinary profits offered by the sector in question would attract capitalists seeking to seize the opportunity. The larger number of producers in that market segment would reduce profits, causing the rate to return to an average rate.

Ricardo's Labor Theory of Value

In the Ricardian analytical scheme, the theory of value occupies a central position, even though Ricardo himself affirmed its priority in relation to the distribution of income among social classes. Unlike Smith, in his reflections on value, Ricardo's purpose was to understand the effects of variations in relative prices on income distribution, and the impacts of this on economic growth (Silva, 2003).

Therefore, it is understood that simultaneously or in parallel, while the income redistribution process should prioritize the most disadvantaged, price variations related to income distribution should be evaluated from the perspective of improving the population's quality of life.

According to Sandroni (1995), Ricardo improved Smith's labor theory of value, which is nothing more than a theory of production costs, by perceiving a series of logical inconsistencies in it. The costs of production (land, labor, and capital), of an incommensurable and heterogeneous nature, can only be added together if reduced to a common denominator. However, as Smith himself had already observed, reducing them to their monetary

value was not at all the adequate solution. It was necessary, rather, to identify what made them equivalent in money. And this is the starting point of Ricardo's analysis of economic value.

According to Silva (2003), the value of goods could be expressed in monetary terms and broken down into production costs which, in turn, could be expressed in terms of the human labor employed in their production. However, before constructing his theory of value, Ricardo classifies goods according to their possibility of reproduction. There would therefore be two distinct categories of goods: a) Goods susceptible to limited reproduction, whose value is regulated by their rarity, thus fluctuating according to supply and demand, never reaching a point of equilibrium. Works of art, old wines, rare jewels, etc., fall into this category. The value of these goods is regulated solely by their scarcity; b) Goods of unlimited reproduction, whose value is regulated by their production cost, according to a general law and whose price revolves around a point of equilibrium. This category includes all sorts of goods that society can reproduce in series, despite the scarcity of resources.

And that is where Ricardo concludes: possessing utility, commodities derive their exchange value from two basic sources: their scarcity and the amount of labor necessary to obtain them (Silva, 2003).

In this vein, Nunes et al. (1982) refer that, using the same Ricardian approach, the market aspect of health shows that the specificities have been recognized for a long time, and the main differences in medical care in relation to traditional economic analysis would be: (i) the irregular and unpredictable nature of demand, (ii) the total identification between the product and the production activity of medical care, (iii) the uncertainty regarding the product, (iv) the non-mobility of the factors of production in supply, (v) the possibility of price discrimination by factors such as income and (vi) the presence of indivisibility.

According to Silva (2003), Ricardo argues that these exceptions to the labor theory of value do not cause significant changes in how the product is distributed among classes, nor do they have significant effects on capital accumulation. Nevertheless, the general law deduced by Ricardo does not lose its validity in the face of these exceptions. After all, the economist can be compared to a photographer who seeks to portray the reality that surrounds him, although he can never do so in its full complexity. The important thing is, in fact, to capture the core of the issues studied. And Ricardo did this masterfully.

According to Sandroni (1995), Ricardo is unable to find a standard capable of measuring the value of all things. The question therefore remains open.

It is worth noting that the Ricardian view of value coincides with Smith's regarding the "natural" price of the commodity. Despite the additions to the theory, Ricardo aligned himself with Smith regarding the issue of nominal prices revolving around a natural value.

The Theory of Comparative Advantage from a Ricardian Perspective

According to Silva (2003), the inversely proportional relationship between wages and profits was precisely the starting point of his theory. With the presence of protection mechanisms, especially in the agricultural sector, the natural tendency of the economic system was for the real prices of wage goods or subsistence goods to rise, with quite negative impacts on profits and, consequently, on the rate of economic growth. The economic policy appropriate to postponing the stationary state was based on the promotion of foreign trade; hence, his advocacy for the end of the Corn Laws.

While Santere and Neun (2010) state that comparative advantages and/or generic competitiveness strategies in the healthcare market involve the implementation of specialized services such as those in the private sector, whose defense of the free market without state intervention, as advocated by Ricardo [when defending the elimination of the Corn Law], recommends observing competition based on cost leadership, differentiation strategy, and focus strategy. Luna (2021) further adds that this differentiation can manifest itself in various dimensions, such as the breadth of services offered, characteristics of care, functionality, quality of services, availability, image and reputation of the institution, sales system, and even price, among others.

The main question is to determine what the organization's focus will be, which clients it intends to serve, how it will participate in the sector, and what is the best way, the best strategy, for this company to achieve the best performance in the segment in which it operates (Luna, 2021).

To this end, it is important that the healthcare organization has a deep understanding of itself, the segment in which it operates, as well as its competitors, the environment in general, and the dynamics that involve all these elements. With this in mind, the organization can determine the most appropriate competitive strategy for its success. A large part of them reaffirms its preeminence in the field of economic methodology, even recognizing it as the mentor of the technique of economic science (Piola & Vianna, 1995).

Therefore, based on the aforementioned context, there are aspects that can be highlighted, namely, the breadth of the range of services offered and the need for healthcare to have knowledge about itself, the segment in which it operates, as well as its competitors. It is in this context that it is important to understand the parallelism between Ricardian theory and the ES (Educational System).

Ricardian Economics and Health Economics

Given that the appreciation and evaluation that must be undertaken when seeking to understand the influence of Ricardian Economics on Health Economics is the deciphering of competition based on cost leadership, differentiation strategy, and focus strategy (Silva, 2003), it is understood that the analysis and/or evaluation of Ricardian Economic Theories leads to another type of exercise, which consists of the economic analysis of specific goods and services, such as, for example, the cost-effectiveness analysis of a new drug, or the economic and financial viability of a new medical technology.

Furthermore, for Sandroni (1996), the impact of economic development on the health level of a population, or even: the geographical distribution of resources dedicated to health; comparative studies between health systems of various countries; studies on the results of specific community intervention programs; studies on financing and overall health expenditure.

The above fact relates to the ER approach, insofar as, in addition to non-protectionism, it lists the need to take into account the situation of the most needy (poor) to the goods and services [including health services] of the poor, the distribution (associated with equity) and internationalization (associated with access to what is not produced internally and/or based on a single production while other countries produce the rest. This was the example of the production and export of textiles, through the import of wine from Portugal.

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According to Cruz and Manso (2011), currently, there is a preference to view health as part of the development process, especially when studying the organization of work and modes of production. In this sense, the role of the State is fundamental to explaining the evolution of health levels as an integral part of the social situation, and not only through its intervention in the health sector – which can result in benefits for the population and also present poor results. In situations of State crisis, these relationships become very evident and manifest themselves in crises of access, costs, and effectiveness of health services.

More than ever, the role of the State in regulating the supply and demand of health services is fundamental. The health sector seems to have been forgotten, or perhaps there are those interested in maintaining the status

quo. Other tertiary sectors of the economy already have clear and efficient regulatory mechanisms (Cruz & Manso, 2011).

From the perspective described above, the state's interest in understanding its economic intervention in health should be a regulatory forum, as is the case in a free market. Luna (2021) aligns with this understanding, emphasizing that for all these reasons, it is important to highlight the role of economics in studying the dynamics of the health services market. Health economics utilizes multidisciplinary collaboration to understand the meaning of health service needs and the relationships between supply and demand. It also recognizes that the perception of pathological processes differs for each social group, affecting and being affected by the behavior of these groups in each context.

It is also important to analyze the influential role played by commercial interests, whether those of pharmaceutical or equipment manufacturers, the different ways in which health plans and insurance are presented, or the role of doctors and various types of providers in patients' decisions to consume services.

Drawing on ER, according to Sandroni (1996), its theories influenced the conception for understanding the new economic approach or branch, "Health Economics," especially in the analysis of the nature of demand, the conditions of supply, price-related practices, physician behavior, and, with particular emphasis, uncertainty. The market for goods and services in the public sector has many imperfections (...) such as the induction of demand by supply, consumer ignorance, the unpredictability of need, externalities, and the public nature of goods and services (Cruz & Manso, 2011).

Now, both Cruz and Manso, as well as Silva, Luna, and other authors who have further explored Ricardian theories, have emphasized that these theories, in their methodological foundation, incorporate aspects raised by Smith, Say, and Malthu, appreciating how the relationship between supply and demand in a free market contributes to economic growth and, consequently, improves social aspects, namely the health status of the population.

Ricardian Economics and Health Economics in Mozambique

As previously observed, the ER considers the relationship between supply and demand in a free market, which it argues can contribute to economic growth and, consequently, improve social aspects, namely the health status of the population. Now, when considering Health Economics in Mozambique (HEM), the primary underlying aspects are related to the financing of the health sector, which, among other things, is highlighted by the strategic guiding document on Health Sector Financing (2020-2030), with diversified and progressive general taxation as the main source of financing (MISAU, 2019).

From the perspectives above, it is clear that the state needs to allow greater intervention from the private sector in the provision of health services, as the ER also advocates when listing the non-intervention of the state.

On the other hand, a technical report presented by Gironés et al. (2018), related to Health Inequalities in Mozambique: needs, access, barriers and quality of care, revealed that, regarding access to professional health services, about one third of the people (interviewed in the provinces of Cabo Delgado, Maputo city, Gaza, Inhambane, Niassa) who perceive the need for health, are not using health services.

The statement above shows once again that there is a need for the state to gradually allow the intervention of other sectors in providing more assistance, with the state only regulating.

Final Considerations

It was found that although ER does not provide a standard capable of measuring the value of all things [a fact that can be inferred from the analysis of the health market through ES], insofar as health/illness is immeasurable, it provides elements that enable economic actions to restore understanding of the health market. On the one hand, it elucidates that States should promote greater market fluidity (investments in health, regulation), and on the other hand, it understands that the market has its specificities to respect, namely, the

irregularity of service demand, the unpredictability of service demand, the considerable probability of reduced personal integrity to implement a particular economic policy. Therefore, the Mozambican government's approach should be to allow more private actors to enter the provision of health services; only then will the motto of the Ministry of Health make sense – “the greatest value is life” (MISAU, 2011).

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