Is health Care Really a Luxury? The Debate Revisited with New Evidence from Emerging Economies

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There is a large body of literature on the relationship between income and health care for OECD countries, but there is hardly any study on the same lines for emerging economies even though they are groaning under the twin-burden of infectious diseases and lifestyle diseases. This paper tries to fill this gap in the literature by studying the long-run relationship between health care expenditure and income using a panel data set of 24 emerging economies over the period 1995-2012. The variables include per capita health expenditure, per capita GDP, proportion of public expenditure on health, proportion of out-of-pocket expenditure on health, urbanization, dependency ratio and literacy. The paper investigates the non-stationarity and cointegration properties between health care expenditure and GDP after controlling for cross-sectional dependence and unobserved heterogeneity among different countries. The results suggest that health care is a normal good but income inelastic, in other words, health care in emerging economies is a necessity and not a luxury. This has enormous implications for public policy formulation because left to itself, higher income will not translate into higher spending on health care by individual patients. Policy implications suggest that there is a role for government intervention for generating awareness and creating demand for health care services among the disadvantaged sections of the populace. This would also entail public provisioning and distribution of health care services as well as regulating the market for health care. Government expenditure and out-of-pocket payments turn out to be important factors explaining variations in health care expenditures.

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