

Why Out-of-Pocket Health Expenses Rise Under Free Health Care Policy? Empirical Analysis Based on Sri Lankan Household Surveys

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ABSTRACT

Compared to its neighbors, Sri Lanka performs well in terms of health. Health care is provided for free in the public sector, yet households' out-of-pocket health expenditures are steadily increasing. We explore whether this increase can be explained by supply shortages and insufficient public health care financing or whether it is rather the result of an income-induced demand for supplementary and higher quality services from the private sector. We do not only focus on total health care expenditures but examine also health care expenditures for specific services such as expenses on private outpatient treatments, expenses on laboratory and other diagnostic services, expenses on medicines, expenses on specialist consultations and expenses on inpatient stays in private hospitals. Overall, we find little indication that limited supply of public health care pushes patients into the private sector. It rather looks as households consider private health care services as a luxury good that is increasingly consumed as household income rises. Yet, quality improvements in the public sector might be necessary to ensure sustainability of the public health care sector. If the rich and the middle class increasingly opt out of public health care, the willingness to pay taxes to finance the free health care policy may significantly shrink.

Key words: Free health care policy, health care demand, health care supply, Sri Lanka

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