Health Expenditures in Latin America 1995-2010

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ABSTRACT

The authors examine the trajectory of health expenditures in Latin American countries. The authors apply standard fixed effects and dynamic models to explore the factors associated with the growth of total health expenditures as well as its main components namely, government health expenditures and out-of-pocket payments. Their results suggest that, after taking other factors into consideration, health expenditures in general do not grow faster than the Gross National Product (GNP). The authors confirm the existence of fungibility, where external aid for health reduces government health spending and out-of-pocket expenses from domestic sources. The study also finds that government health expenditure and out-of-pocket payments follow the same paths in time but vary for countries at different levels of economic development; the same is true for health expenditure growth.

Keywords: Elasticity, External Aid, Gross National Product, Health Expenditure, Per Capita

INTRODUCTION

Across the world, the amount countries spend yearly on healthcare varies greatly. In high income countries, the per capita health expenditure averages over $3,000 United States Dollars (USD), while in resource-poor countries, it is only $30 USD per capita. In 2008, there were 64 countries with per capita health expenditures less than $100 USD. There is also wide variation in health expenditures with respect to economic development. Some countries spend more than 12% of their Gross Domestic Product (GDP) on health, while others spend less than 3% of their GDP. Overall, in the world 17.7% of total expenditures on health was out-of-pocket in 2010. Fifty percent (50%) of Official Development Assistance (ODA) for health does not flow through governments who received such assistance. Statistics from the World Health Organization (WHO, 2013) document for 2010: Per capita government expenditures on health (PPP int. $) for lower middle income countries is $152; for upper-middle income countries, $598; for low income countries, $63; and for high income countries, $4,612.

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In September 2000, 189 heads of state adopted the Millennium Declaration designed to improve social and economic conditions in the world’s poorest countries by 2015.

In April 2001, heads of state of African Union countries met and pledged to set a target of allocating at least 15% of their annual budget to improve the health sector. In 2006, 65 countries of Africa and South America joined to Abuja declaration.

The main objective of this research is to find the new perspective explaining the behavior of health expenditures in Latin America countries in three parts, total, government and out of pocket health expenditures. We study component factors of health expenditures in two directions: 1). Economic variables such as GNP elasticity, financial variables that includes external aid, social security based system, growth through time and the level of development. 2). Socio- demographic variables such as epidemiological prevalence, age structure of population and poverty gap.

To understand health expenditures is important to have a measure of the level of applied resources to health and compare it with the international recommendations such as Abuja declaration, the response of health expenditures to an increase or decrease in economic and socio-demographic variables and this will lead us to understand the effects on the relations of health expenditures to improve the people’s participation.

BACKGROUND

Several approaches for modeling health care expenditures are presented in the literature. Income per capita GDP has been identified as a very important factor for explaining differences across countries in the level and growth of total health care expenditures. Several researchers (Kleiman, 1974; Newhouse, 1977; Leu, 1986; Getzen, 2000; and Musgrove, Zeramdini, & Carrin, 2002) used cross section data and found that income elasticity of total health expenditure was between 1.133 and 1.275. Income elasticity for out-of-pocket payments ranged from 0.884 to 1.033, while it was between 1.069 and 1.194 for government health expenditure. (Van der Gaag & Stimac, 2008) found that income elasticity for total health expenditure was 1.09; income elasticity was less than one in the Middle East and greater than one in countries belonging to the Organization for Economic Cooperation and Development (OECD). Murthy and Okunade (2009) used cross-sectional data and found an income elasticity between 1.089 and 1.121, and Schieber and Maeda (1999) found income elasticity at 1.13. Income elasticity for public spending was higher than for private spending.

The government expenditures in health have been studied by several authors. Lu, Schneider, Gubbins, Leach-Kemon, Jamison, and Murray (2010) looked at the effects of ODA on health spending in low and low middle income countries and found that GDP per capita had no significant relationship with government health expenditure as a share of GDP. They used Human Immunodeficiency Virus HIV zero prevalence as a proxy and found that it also had no significant relationship. Another study (Farag, Nandakumar, Wallack, Gaumer, & Hodgkin, 2009), examining the fungibility of ODA for health and domestic government health expenditure based on panel data, found that a 1% increase in GDP was associated with a 0.66% increase in domestic government health expenditure in low-income countries and with a 0.96% increase in middle-income countries.

Recently, there has been much interest in the relationship between external funds and national health expenditure in developing countries. Van der Gaag & Stimac (2008) found that whereas there was no significant impact of health-specific official development aid (ODA) on total health expenditure, health specific ODA has an elasticity of 0.138 against public spending on health. Lu and colleagues (2010) found that health ODA channeled through the non-government sector had a positive relationship with general government health expenditure, while a negative correlation was found when it was channeled through government sector.
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