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HEALTH CARE EXPENDITURE AND ECONOMIC GROWTH NEXUS - A PANEL DATA ANALYSIS OF SOME DEVELOPING COUNTRIES

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Abstract

One of the essential issues in health systems across the world is that what factors control the resources a country allocates to medical care. The share of health expenditures of GDP in the developing countries is often less as compared to the developed countries. Consequently, as the country progresses through the various stages of development, health expenditures increase too. The purpose of this paper is to take a closer look at the liaison between the two focus variables viz. growth and public healthcare expenditure. Initially, a theoretical model has been proposed which brings out the link between the focus variables. Panel cointegration and causality are the techniques applied in a Vector Error Correction Mechanism (VECM) set-up using panel data from 1980-2015. The findings corroborate the existence of a cointegrated relationship between health expenditure and economic growth coupled with a bidirectional causality linking the focus variables in this model. Also, this paper attempts to verify the health-led growth hypothesis for the developing countries used in this context i.e. the list includes the top performers in terms of growth in 2015 among all developing countries in the world — China, Philippines, Kenya, India, Indonesia, Thailand, Singapore, Nigeria, Malaysia, Peru, Thailand, U.A.E, Peru, Kazakhstan, Saudi Arabia, Colombia, Taiwan, Turkey, South Korea and Mexico. Finally, the paper ends with a conclusion by highlighting the possible implications of the results.

KEY WORDS : Economic Growth, Public Health Expenditure, Difference Equations, Panel Data, Cointegration, Granger Causality

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I. Introduction

One of the essential issues in health systems across the world is that what factors control the resources a country allocates to medical care. The share of health expenditures of GDP in the developing countries is often less as compared to the developed countries. The role of health care spending on stimulating economic growth was first suggested by Mushkin (1962). This is known as the “health-led growth” hypothesis. According to this particular hypothesis, health is a capital, thus investment on health can increase income, hence lead to overall economic growth. In fact, health can affect growth through its impact on human and physical capital accumulation.

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