Gertler and Gruber: insuring consumption against illness. Indonesia has invested heavily to develop a comprehensive government-operated health care delivery system that individuals are able to access by paying a modest user fee. In 1991, there were at least one health center and several subcenters in each of Indonesia’s 3,400 subdistricts. A network of government-operated hospitals at the district, provincial, and central levels backs up this large primary care system. Despite this, Indonesia’s health care expenditures remain low relative to those of its neighbors (World Bank, 1993). Gertler and Gruber investigate the effects of major illnesses on earnings and medical care expenditures. They use measures of individuals’ physical abilities to perform activities of daily living (ADLs) and try to focus on the impact of serious health shocks. We find that there are significant economic costs associated with major illness, and that there is very imperfect insurance of consumption over illness episodes. These estimates suggest large welfare gains from the introduction of formal disability insurance, and that the large public subsidies for medical care typical of most developing countries may improve welfare by providing consumption insurance.

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