The economic consequences of getting ill in Germany and the United States

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Abstract

The event of long term illness is regulated differently in Germany and the United States. While most Germans are members of the compulsory health insurance which pays for medical treatments and medication, U.S.' health care arrangements consist of a complex compound of fragmented schemes creating a number of distinct "transfer classes", some of them with very limited access to contributions of the welfare state. Moreover, while both countries protect employees against dismissal, only the German welfare state also provides continued payment of wages during absence from work. Starting from a description of such welfare state arrangements we develop several hypotheses about the economic consequences of getting seriously ill, which are then tested using data of the German Socio Economic Panel and the American Panel Study of Income Dynamics. For example, we expect that sick persons in Germany by and large rely on the contributions of the welfare state to secure their standard of living, while many Americans must combine the welfare state contributions with continued work despite illness, increased work load of other household members, and resort to the capital marked; thereby the specific combination co-varies with the transfer classes created by the American health care arrangements.

Hence, although we expect little overall effects of getting ill on household income in both countries, we expect (a) differences in the major source of income between both countries, (b) higher variation of income packages in the U.S., and (c) an increase of debts due to long term illness in the U.S.

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