

Abstract

This paper examines empirically the consequences for quantity and price of long-term home health care when having a transition from a system based on supply regulation towards demand-side subsidy. In the Netherlands, demand-side subsidies were introduced in 1996. Clients receive a cash benefit to purchase the type of home care (housework, personal care, support with mobility, organisational tasks or social support) they need from the care supplier of their choice (private care provider, regular care agency, commercial care agency or paid informal care provider). Furthermore, they negotiate with the care supplier about price and quantity. Our main findings are the following. 1) There is hardly any change in the composition and the amount of care purchased between both systems. 2) In a system of demand-side subsidy, the component of the cash benefit a client has no residual claimant on, has a positive impact on the price of care, although it is not clear whether the positive impact is due to a lack of bargaining power or due to ex-post moral hazard. 3) In contrast, the components of the cash benefit a client has residual claimant on, have no or a negative impact on the price of care. Both results reject a lack of bargaining power of clients, but instead they point at the existence of ex-post moral hazard in a system of demand-side subsidy.