Public Hospitals Waste Tax money

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Overview:
Public hospitals are usually more competitive than most private hospitals, with better medical equipment and manpower. Public hospitals spend more money on these production factors than private hospitals. In fact, they spend more money than they earn from medical services. The deficits are all made up by tax money through municipal government revenues. Tax money spent at public hospitals amounts to 740 billion yen in total, or three million yen per bed annually. This big waste of money should be stopped at once, as the Japanese government faces a critical shortage of revenue. Besides, a serious inequity between public and private hospitals caused by this subsidy should be corrected in order to regain healthy competition in the health-care market.

Background:
There are 9,168 hospitals in Japan as of 2003. This number is overwhelmingly large compared to the U.S. when the difference in population is taken into account. Public hospitals, established and run by prefectures and municipals (cities and towns), stood at 1,080 in July 2003. Public hospitals, together with 324 national hospitals, threaten the economic activities of private hospitals.

Public hospitals are classified as public companies such as public sewerage and public bus services. Many of these public companies are ill operated and stay in the red. Municipal governments have disbursed enormous amounts of taxpayers' money for years.
Results:
Firstly, we show the total amount of tax money disbursed to public hospitals across the country. According to the annual report of public companies in 2001, municipal governments subsidized public hospitals with 740 billion yen in order to make up their deficits, 570 billion yen into current accounts and 170 billion into capital accounts. When divided by the number of beds, we see that public hospitals receive three million yen of tax money per bed in a year.

Secondly, we investigate what role the subsidy plays in the hospital operation. The main difference in current accounts between public and private hospitals is the personnel cost. The wages paid to the workers in public hospitals are clearly higher than in private hospitals (Figure 1). Subsidies into capital accounts enable public hospitals to construct better buildings and to buy more advanced equipment than private hospitals. Public hospitals spend overwhelmingly large amounts of construction costs compared to private hospitals (Figure 2).
Thirdly, public hospitals are still in the red even after receiving those huge subsidies in current and capital accounts. This has been offset by borrowing from municipal governments for years. The debt had piled up to the amount of 1,388 billion yen in 2001. We can easily imagine the serious lavishness fostered among public hospitals due to eroded fiscal discipline.

**Discussion:**

In the past it was true that public hospitals played an important role when private hospitals were insufficient in number. They say public hospitals are still vital in the provision of advanced medical services or in rural and remote areas where private hospitals do not operate. We have, however, to reconsider the necessity of public hospitals when they waste tax money. We should stop paying the subsidy to public hospitals. New approaches to give economic incentives to hospitals to provide such services that are likely to fall short supply when there is no assistance are necessary. In that new scheme, public and private hospitals have to stand on an equal footing.