

## *Effect of Separation of Medical and Dispensary Services*

*Aug, 2004*

*Junzoh Wuemura*

*Chief Economist, The Japan Center for Economic Research*

It has been pointed out, as one of the points at issue about the Japanese medical system, that the weight of drug costs in Japan's overall medical care expenditures is much greater than the average of industrialized nations, which means that too many wasteful prescriptions are written for pharmaceuticals. This has been attributed to attempts by medical institutions to increase revenues by prescribing unnecessary medicines to patients. To curb this trend, the government has pushed forward with the lowering of government-set prices for prescription drugs and the separation of medical and dispensary services in its national health program.

Government-set prices for prescription drugs covered by national health have fallen 5-10% each time they were revised every two years since the 1980s. There is a great possibility that the declines in government-set prices have significantly contributed to the resolution of gaps between government-mandated and wholesale drug prices. Now, we will study whether the separation of medical facilities from pharmacies is really contributing to a reduction in prescribed pharmaceuticals.

The separation of medical and dispensary services was originally aimed at securing the safety of patients by making two professionals, both physicians and pharmacists, take part in the prescription medicine process. In Japan, however, importance has been attached to the resolution of the gap between government-mandated and wholesale drug prices and to the disclosure of information on the details of prescriptions. What is regarded as a yardstick for the effectiveness of the separation of medical and dispensary services is a prescription reception ratio, compiled and released by the Japan Pharmaceutical Association. The prescription reception ratio is obtained by first multiplying the number of outpatients who have received medical and/or dental care subject to medication by the medication ratio (most recent three-year average), and then dividing the number of issued prescriptions by product. This indicates the ratio of prescriptions dispensed outside of hospitals.

The prescription reception ratio rose sharply from 9.7% in fiscal 1986, to 20.3% in fiscal 1995 and to 44.5% in fiscal 2001. As far as these figures are concerned, the separation of medical and dispensary services is advancing smoothly. Now, let us look into actual drug costs.

Expenses for prescriptions dispensed at pharmacies, shown in a booklet on national medical care expenditures compiled by the Ministry of Health, Labor and Welfare, are the total sales value of drugs dispensed through prescriptions plus prescription fees. These expenses increased rapidly from some 350 billion yen in fiscal 1986 to 1.26 trillion yen in fiscal 1995 and to 3.07 trillion yen in fiscal 2001. We cannot, however, grasp how much drug costs have been expanding based on these figures alone, since the prescription reception ratio itself is growing sharply. The question is the total value of medication, including medicines supplied other than through prescriptions. No accurate data on the total are available. The value of medicines sold based on prescriptions at pharmacies outside hospitals is less than half that of total drug costs, since remedies sold under prescription do not include such expensive medications as anti-cancer drugs, blood-making medicines and state-of-the-art remedies, according to insiders of the pharmaceutical industry. Against this backdrop, we cannot estimate overall drug costs based solely on the expenses of prescriptions dispensed at pharmacies as indicated in the booklet on national medical care expenditures.

We can, however, get a hint from the Health Data of the Organization for Economic Cooperation and Development (OECD). According to these data, the ratio of drug costs to Japan's total expenditure on health, which stood at 22.9% in 1991, declined to 16.5% in 1999 (Fig.). We cannot make a strict comparison, though, since the definition of Total Expenditure on Health by OECD is broader than that of Japan's national medical care expenditures and the definition of drug costs by OECD is unknown. Drug expenditures obtained by reckoning the OECD data backward indicate that the medication market in Japan dwindled from about 7 trillion yen in 1996 to some 6 trillion yen in 1999. However, the scale of the market in terms of supply (calculated by subtracting exports from the total of production and imports) grew from 6.6 trillion yen in 1996 to 6.9 trillion yen in 1999. Since the supply-based market scale is based on prices of medicines when they are shipped from manufacturers, we cannot simply compare it with the market value worked out using the OECD data. The significant discrepancy between these two sets of figures, however, means that use of either of these two calculation methods is problematic.

Though there is a possibility that declines in the ratio of Japan's drug costs to its total expenditure on health, as indicated by the OECD data, are unduly large, it may be undeniable that Japan's medication expenditures are hitting a growth ceiling. We cannot judge, however, whether the leveling off is attributed to the decreases in government-set prices for prescription drugs or to the separation of medical and dispensary services. In order to verify the effect of the separation of the two services, it may be necessary to compare the drug costs in such prefectures as Akita and Kanagawa, where the prescription reception ratio reaches 65-70%, and those in prefectures where the prescription reception ratio is below 25%, including Fukui, Wakayama and Ishikawa Prefectures.

The generally accepted idea that Japan's drug expenses are much higher than those of other industrialized nations, as mentioned at the beginning of this report, was formed as a result of the emphasis placed on OECD data from around 1990, which showed that Japan's drug

costs were nearly three times that of the U.S. More recent data indicate that Japan's drug costs are just under 100% greater than the U.S and only 20-30% more than such expenses in European nations. Thus, it can be concluded that while Japan's drug costs are decreasing, they are still greater than those of other industrialized countries.

