

The Impact of Physician Supply on the Healthcare System:
Evidence from Japan's New Residency Program

April 21, 2014

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Abstract

Using a 2004 Japanese natural experiment affecting physician supply, we study the physician labor market and its effects on hospital competition and health outcomes. Based on panel data covering all physicians in Japan, we find that the introduction of a new residency program – our natural experiment – substantially decreased the supply of physicians in some rural markets where local hospitals had relied on university hospitals for filling physician positions. We also find that physician market wages increased in the affected markets, while wages remained unchanged in unaffected markets. Finally, we find that this change in physician market wages forces hospitals to exit affected markets and negatively affects patient health outcomes in those markets. These effects may be exacerbated by the fact that the healthcare market was rigidly price-regulated.

Key words: physician labor market, physician wage, hospital exit, health outcome.

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