

# Disease-Specific Subsidies, Supply-Side Restructuring, and Health Externalities: Evidence from Postwar Japan\*

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## Abstract

We examine how public subsidies for medical treatment reshape the supply side of healthcare markets and whether they generate positive health externalities for individuals whose conditions fall entirely outside the scope of the subsidy. Exploiting the 1951 reform in Japan — which subsidized outpatient tuberculosis treatment costs — we implement an event study design leveraging pre-policy variation in prefecture-level tuberculosis mortality rates as treatment intensity. Using a prefecture-year panel spanning 1948 to 1960, we find that the subsidy induced a vertical decentralization of healthcare delivery: clinic counts increased in high-intensity prefectures while hospital counts and beds remained unchanged. We further find that the subsidy generated positive health externalities: infant mortality from treatable non-tuberculosis conditions declined significantly, while non-treatable mortality showed no change. Evidence points to decentralization as the most plausible mechanism, though we cannot rule out household income effects. Our findings suggest that the social value of targeted subsidies for medical treatment may be substantially underestimated when externalities and supply-side restructuring are excluded from policy evaluation.

Keywords: Tuberculosis, Healthcare, Decentralization, Japan, Event Study  
JEL codes: I12, I18, H51, I13, N35

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