PROVIDING QUALITY PHARMACY SERVICES: GOOD INTENTIONS ARE NOT ENOUGH

Paul K Gorecki[*]

Economic and Social Research Institute, Dublin

Elected representatives, like consumers, want reliable good quality medical services. Pharmacy services are no exception. Providing sound advice on which drug to take for a minor ailment, or the common side effects of a drug or keeping careful track of a consumer's drug regimen, promote good health outcomes.

Government in 1996 introduced two inter-related policies designed to raise the quality of pharmacy services in Ireland.

- First, the Health (Community Pharmacy Contract Agreement) Regulations, 1996. The 1996 Pharmacy Regulations confined the opening of new pharmacies to instances where there was a 'definite public health need.' Minimum distances were specified between pharmacies. New pharmacies could not threaten the viability of an existing pharmacy.[1]
- Second, the 1996 Community Pharmacy Contract, between an individual pharmacy and a Health Board, specified that pharmacists were to provide certain services drawing on their professional knowledge and expertise. These included checking the drug regimen of a consumer, including the examination of the rational and cost effective use of medicines.

Government funded community drug schemes account for the vast majority of drugs dispensed.

[*] paul.gorecki@esri.ie

[1] These regulations were unexpectedly revoked in January 2002 following legal action.

These two policies appear, however, to have had little effect on the quality of pharmacy services, while having some undesirable side effects:

- The 1996 Pharmacy Regulations led to a drastic decline in the opening of new pharmacies, despite a large increase in demand, with the result that the value of pharmacies was inflated considerably – by between 40 per cent and 60 per cent. There is little evidence that these restrictions on entry led to any improvement in service quality – casting doubt on the purported rationale for the policy. If pharmacists, as private parties, has agreed collectively to these regulations they would almost certainly have been guilty of a breach of Section 4(1) of the Competition Act, which prohibits anti-competitive agreements.
- The 1996 Community Pharmacy Contract provisions relating to improved pharmacy services for consumers are aspirational. The provisions are largely unenforceable; do not recognise the conflicting motivations of a pharmacist and result in no measurable output.

Five lessons are presented so as to inform future community pharmacy contracts so as to better realise any desired improvements in service quality.

Lesson #1: Avoid Regulatory Capture – Government intervention should promote consumer welfare and be consistent with the better regulation agenda, rather than, as appears to be the case here, primarily benefiting the producer – incumbent pharmacies.

Lesson #2: A Valid Rationale? – Regulatory intervention requires a valid rationale such as market power, externalities or information asymmetries that is consistent with the facts. The rationale for restricting the opening new pharmacies was "over competition." The evidence suggested no such state of affairs; if anything the pharmacy market had many of the hall marks of a protected less than competitive market that required more competition and more not less entry.

Lesson #3: Contracts Should be S.M.A.R.T. – A contract between a purchaser, such as the health board, and provider, such as a pharmacy, should be well specified. They should be SMART – Specific; Measurable; Attainable; Realistic; and Timely – rather than aspirational.

Lesson #4: Incentives Count, So Don't Ignore Them – Regulatory regimes or contracts for services should ensure that these are incentive compatible with the motivation of the provider. If pharmacists are compensated on the basis of a mark-up on the cost of a drug then they will have an incentive to dispense a high priced brand. Expecting the pharmacist to spend time persuading the physician to prescribe a lower priced brand, since the pharmacist is not able to dispense a lower priced brand without permission, is thus doubly unlikely – a loss in income from dispensing a lower priced brand and the time taken to persuade the prescriber.

Lesson #5: Markets Do Work: Working with Rather than Against the Market – New entrants typically supply new ideas, new ways of doing things, with the result that productivity and innovation increase.

Competitive markets are able to provide improved services in terms of prices and other non-price aspects that are valued by consumers, such as opening hours, home delivery and so on.

It could, of course, be argued that these lessons are of historical interest only. In fact, they are still highly relevant, as evidenced by the statement as of 2009 from the Pharmaceutical Society of Ireland, the pharmacists' regulatory body: "[A] model based on the 'free market' should be discouraged and instead the normative need of the patients and population should be the driving forces behind a new generation of pharmacy services. Restrictions on new pharmacy openings should be considered and a methodology that optimises fair access for patients and ensures pharmacies are located where need is identified, should be developed."

GORECKI, P. K., 2010. "Do you believe in magic? Improving the quality of pharmacy services through restricting entry and aspirational contracts, the Irish experience", *European Journal of Health Economics*, published online 9 July 2010.