

Will Reference Pricing Address The Health Cost Conundrum?

FEW WOULD DISPUTE THE VALUE of the brand-name prescription drugs that have been developed over the past several decades and have greatly benefited people afflicted with serious diseases. Because these products are

so valued but beyond the financial reach of many people, pharmaceutical companies have come under greater scrutiny than perhaps ever before. While this notoriety stems from a variety of issues, none attracts more attention among policymakers than cost: Prescription drugs are among the fastest-growing components of spending in health care systems around the world. According to IMS Health, worldwide drug sales grew 8 percent last year to \$430.3 billion. Most of the rise in drug spending is attributable to increases in the volume of drugs taken by a greater number of patients and more days of use per prescription, rather than medical inflation. The expansion of insurance for drugs also has played an important role.

In this respect, the United States finds itself in a different position in relation to other countries. While other countries have long offered most of their residents access to prescription drugs through a variety of approaches, the United States has yet to extend similar protection to the heaviest users of these products—disabled and elderly people—through the Medicare program. About two-thirds of Medicare's forty million beneficiaries enjoy some form of supplemental drug coverage, but that still leaves many people without ready access to prescription drugs. As Congress considers more seriously an expansion of Medicare's drug benefit, one of the most important issues it will address is how to pay for these products. The pharmaceutical industry fears that such an expansion will lead inevitably to government price controls in a country that is the last bastion of relatively unfettered pricing, at least compared with other countries.

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We lead off this issue with an essay by Panos Kanavos and Uwe Reinhardt that explores one approach to pricing that is in use in a variety of European countries, Australia, and the Canadian province of British Columbia. Known as reference pricing, the concept is controversial, as two accompanying perspectives by Adrian Towse and Richard Frank underscore. It is not at all clear that the U.S. Congress will consider, much less adopt, reference pricing as its preferred approach for Medicare's drug benefit, should it enact one. But a number of large private American insurers—Aetna, Humana, and WellPoint—are considering this approach, according to the *Wall Street Journal* (26 March 2003). In two other papers that address pharmaceutical issues, British analysts Alan Maynard and Karen Bloor survey the variety of methods by which drug spending is regulated in Europe, and Steve Morgan and colleagues discuss the ways in which Canada's provincial health insurance plans provide drug coverage to senior citizens. Other papers cover the latest health care spending trends among industrialized countries, results of a new international survey of sicker adults, a thorough examination of Taiwan's universal health insurance program, and a report on a collaboration involving ways to improve quality of care in the United Kingdom and the United States.

Once again we are joined in this international effort by the Commonwealth Fund, which is pursuing a goal of provoking a richer dialogue of exchange between countries on broad issues of health care policy. Its International Program in Health Policy and Practice, developed under the leadership of Karen Davis, president of the fund, and Robin Osborn, who directs the program, includes several key components: an annual international symposium that brings together health ministers, senior government officials, and leading health policy experts from Australia, Canada, Mexico, New Zealand, the United Kingdom, the United States, and, periodically, other industrialized nations around issues of common concern; an annual international health policy survey, the latest findings of which are published in this issue (page 106); annual analyses of the latest data on health care spending, capacity, utilization, workforce, and outcomes among the Organization for Economic Cooperation and Development (OECD) countries; and the Harkness Fellowships in Health Care Policy. This program enables scholars from Australia, New Zealand, and the United Kingdom to conduct research in the United States that is relevant to both the host and the home country. Panos Kanavos was on a Harkness Fellowship when he coauthored our lead paper. The Australian Department of Health and Ageing, in collaboration with the Commonwealth Fund, recently announced that it will sponsor the study of its health care system by Americans in a "reverse Harkness Fellowship." The fund also is collaborating with the OECD to develop comparable quality-of-care indicators in nineteen countries that will enable policymakers to better judge the performance of their respective health care systems.

JOHN K. IGLEHART
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