



Business and Industry Advisory Committee to the **OECD**

Comité Consultatif Economique et Industriel Auprès de l'**OCDE**

BIAC Statement to the OECD Health Ministerial Roundtable “Innovation in Health Care: Seizing the Benefits”

13 May 2004

Introduction

Health care is a vital industry in OECD economies and a major employer. Increasingly, it is a source of high-quality jobs, technological innovation and other knowledge-intensive activities that benefit modern societies. At the same time a well-functioning, efficient health care sector is fundamental for a stable and a coherent social climate that provides a basis for sustained economic growth and innovation in other sectors.

As employers, manufacturers, innovators and insurers, the private sector has a vested interest in striving to improve the quality and performance of the health care sector that serves the best interest of patients. BIAC believes that these improvements can only be achieved through continued private and public sector innovation combined with a public regulatory climate favourable to innovation, competition and choice.

1. Innovation in Health Care is Key to Economic Growth in the OECD Countries

Innovation resulting from breakthroughs in science and technology fuels economic growth through enhancements in productivity, a fact demonstrated by numerous OECD research projects. The pioneering work of the OECD is beginning to show that a growing share of these innovations comes from health-related applications. Thus the agenda for economic growth is closely tied to innovation in life sciences and health and it is linked to the ability for producers to rapidly disseminate new technologies.

Many of the OECD countries have recently targeted greater R&D intensity and, to that end, developed strategic programs in life sciences. BIAC believes that public policies should support innovation as it impacts all facets of health care. In this regard intellectual property rights should be upheld to protect and promote breakthrough innovation.

We believe that the OECD health ministers should work more closely with science and technology ministers in developing policy agendas that emphasize the link between quality in health care and the capacity of the private sector to innovate

through appropriate market-based incentives, particularly in pricing and reimbursement of new technologies.

Finally, we recommend that OECD governments review the barriers to innovation and strive to eliminate or reduce these wherever possible.

2. Benefits of Technological Change in Medicine Exceed the Costs

When costs and benefits are weighed together, technological advances in medicine have proved to be worth far more than their costs. New treatments and health care products and devices resulting from medical technology have made and are making growing contributions to public health, as demonstrated by increased longevity and greater quality of life, less absenteeism and lower rates of disability. Medical progress is predicated on continuing innovation.

Technological change has accounted for a large share of medical expenses over time. This by itself does not prove that the technology is not worth the costs. This depends on the benefits of the technology to the population over time across different diseases and not just based on the assessment of impact of individual products or services.

Based on studies by prominent economists, there is evidence, for example, that the estimated benefits of technological change in treatment of heart attacks, low-birth infants, depression and cataracts have greatly outweighed the costs. According to one study, "around 70 percent of the survival improvement in heart attack mortality is a result of changes in technology, with remainder coming from changes in risk factors such as smoking and in diagnostic technologies."¹ Similar analysis shows the net benefit over costs of treating low-birth infants with technologies ranging from special ventilators to artificial surfactants. New medications such as selective serotonin uptake inhibitors are shown to be responsible for the change of treatment patterns of depression that actually shows net savings. The treatment of cataracts by operation has also generated net benefits.

The benefits exceed costs even though the new technologies have significantly expanded not only the intensity but the total use of new treatments. However incomplete, these studies signal a lack of reliable measures at a policy level and the need to develop methodologies that would remedy it. They also suggest the need to look at cost-benefit of technologies by broad medical conditions rather than in the aggregate (total health care expenditure).

BIAC believes that to advance this goal, governments should develop better tools to measure the total value of innovation that produces both good health and creates strong knowledge-based applications. This will require a better understanding of the

¹ For example, D. Cutler and M. McClellan, "Is Technological Change in Medicine Worth It?" Health Affairs, Sept./Oct 2001, F. Lichtenberg, "Are Benefits of Newer Drugs Worth Their Costs?", 1996, R. Miller and H. Frech, "Health Care Matters", AEI, 2004, other.

different ways in which technology affects the medical system and the methodology for capturing health improvements.

3. Governments Have a Major Role in Supporting Innovation in Health Care.

Successful public policy rests on several core conditions enabling such innovation:

- Strong standards and effective enforcement of intellectual property protection
- Competition and contestable markets
- Open trade and investment
- Strong and sustainable fundamental research and development infrastructure
- Efficient and transparent regulatory systems
- Ethics and rule of law
- Support for education at all levels

Health care innovation is costly and it is predominately carried out by the private sector. There is no better R&D model available at present and the close interaction of private and public sectors is essential.

Benefits to patients could be increased and the high-costs of medical R&D could be alleviated if public policies would reduce the time necessary for market approval. This can be achieved for example by greater reliance on information technology in testing for safety and efficacy. Some regulatory authorities such as FDA also consider more flexible approaches in clinical trials that could offer faster market approval.

Health care R&D is global and it relies on the access to global markets. Faster and more reliable rates of diffusion worldwide would contribute to lower costs to patients.

BIAC believes that competition among innovators, access to financing, deepening scientific understanding and evolving consumer demands provide the best guide for priorities in research and development.

However, where innovation fails to deliver on the specific public priorities, it might be necessary for the governments to provide additional incentives. For example, incentives have been successfully set up to increase financial returns in researching cures for rare diseases by introducing orphan drug legislation.

4. Information and Communication Applications in Health Care Remain Unexploited

Information and communication applications (ICT) in health care offer a great potential for increasing productivity of the health care systems – yet they remain largely unexploited. Some of the most important areas are in speeding up research and development process through regulatory reforms, thus accelerating patient access to new promising products; providing tools for better safety and risk management; evaluations and benchmarking; addressing inequities, and greater monitoring capability for governments.

At the individual level, ICTs offer opportunities to provide information to and about the patient, improve individual care, increase patient compliance, strengthen individual responsibility, reduce errors and limit waste and paperwork. At the health facility level, ICTs facilitate organizational innovation and change. Finally, ICTs play a role in designing innovative financing solutions associated with private insurance.

BIAC believes that governments ought to study the existing barriers to ICT applications including:

- consideration of security, privacy and confidentiality
- conditions necessary for successful implementation such as support from medical personnel
- flexibility and incentives

Again, the aspects of international cooperation and private-public coordination are crucial.

5. Dialogue Between Innovators and the Governments Should be Encouraged

Increasing communication between innovators and purchasers of innovative healthcare products is likely to be of benefit if there can be improved mutual understanding. Currently, there could be much more meaningful dialogue between industry and OECD governments to this effect.

If governments could express on a 10-20 year timeframe their priorities for public health and have a dialogue with innovators, this would likely result in more alignment between innovation and public health needs, provided that a viable market exists in those priority areas.

Public and private dialogue is necessary to stimulate more research and development on new cures for the “neglected” diseases of the developing countries such as infectious and tropical diseases as malaria, tuberculosis and leprosy that afflict millions of individuals. The challenge is that insufficient revenues on the demand side combine with the risk and ultimately the cost of R&D on the supply side. Strategies for stimulating R&D on the neglected diseases must either work to lower costs of development (“push” programs) or enhance the expected revenues (“pull” programs), or both and require public-private partnership to succeed.

BIAC recommends that there should be increased dialogue initiated between industry and OECD governments about how to remove barriers to innovation and improve alignment between healthcare innovation and the needs of both OECD and non-OECD countries. This could be done through the OECD Health Program, in partnership with the Directorate on Science, Technology and Industry.