



BIAC Discussion Paper for the OECD High Level Conference of National Experts on Health Care Reform

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I. INTRODUCTION

1. BIAC welcomes the OECD's work in monitoring and assessing Member Countries' health care policy reforms. The work undertaken to establish a statistically consistent database of health care policy indicators has proven useful to governments and industry in helping to identify trends in an area which has become of grave concern to all parties involved.

2. By way of introduction, BIAC would like to emphasise the socio-political connotations associated with health care reform. Health care policies have evolved according to the historic, cultural and economic traditions of each country. Most systems were put in place just after World War II and have not been subject to considerable reform since then. Consequently, the structures and capacity of these systems are no longer performing satisfactorily in the light of economic growth, changes in demography and progress in medical treatment.

3. At present, most OECD countries are experiencing huge deficits in their social security budgets. There is therefore an increasing need for greater control and efficiency of public spending in general as well as real concern that many countries will encounter a serious financial crisis if substantial reforms are not undertaken. For this reason, health care policies are at the top of the policy agenda for most countries.

4. Representing business and industry in OECD countries, BIAC puts great emphasis on the changes and reforms that will undoubtedly occur in this field. A well-functioning health care system is not only fundamental for a stable and coherent social climate, but is also the underlying basis for a stable economy and a climate of consumer and business confidence.

5. Besides being the beneficiaries of health care, business is to a large extent the principal source of funds for the present health care systems, through insurance schemes and payroll taxes. As Member Countries' budget deficits have increased, mainly due to excessive spending in social security in general, governments have responded by increasing non-wage labour costs, e.g. payroll taxes, in order to increase their revenue, which in turn has consequence for employment creation.

6. According to the OECD Jobs Study, one of the principal structural problems that has led to the current high unemployment figures, is that of overly burdensome non-wage labour costs. This, combined with rigid labour market legislation, has made it increasingly difficult for business to hire additional personnel. Moreover, employees are discouraged from accepting lower paid jobs where a large part of their salary disappears in payroll taxes, and choose instead to receive unemployment benefit.

II. NEED FOR HEALTH CARE REFORM

7. Governments find themselves in a "Catch 22" situation: the more the demand for health care increases, the less able they are to fund the health care systems. Despite the range of measures that were introduced in the 1980s to limit increases in expenditure and to improve the quality of spending, there is obviously an urgent need for further reform. The business community therefore takes this opportunity to present a set of principles which governments should consider when implementing these necessary reforms:

- i) All members of society should have access to essential health care services irrespective of their ability to pay for them. Individuals should be offered some degree of protection against financial consequences of falling ill, and payment for this protection should be income-related rather than based on individual risk.
- ii) Health care systems should be designed to encourage efficient funding and provision of services through:
 - a) Cost-effective provision of services
 - b) Responsiveness to patient preferences
 - c) Encouragement of development of new effective treatments
 - d) Discouragement of over consumption
- iii) While governments should retain control over the redistribution of funds in order to maintain social equity, the role of market forces among insurers and providers of health care services, including hospitals, should be increased.
- iv) More competition in the health care service sector will promote choice and availability of information for patients while forcing insurers, doctors and hospitals to deliver more optimal levels of care.

III. COST CONTAINMENT MEASURES

8. As mentioned earlier, OECD Countries are facing pressure to reform the financing and delivery side of their health care programmes. Despite the recent discussions on structural reform, governments continue to focus on short term budgetary targets and tend to resort to stringent cost containment measures.

9. In an attempt to contain costs, it is important that governments bear in mind that the fundamental engine of continuous quality improvement and cost reduction is innovation. Without incentives to sustain innovation in health care, short-term cost savings will soon lead to lower quality or more rationing of care. It is therefore essential that health care reforms encourage the development of new treatments -- medicines, devices and procedures -- which will effectively increase savings in the long term.

10. Innovative prescription medicines are disproportionately affected by policies to contain costs. The pharmaceutical industry is an easy target for governments since it is to a large extent privately owned and operates on a clear profit motive. Prices of individual medicines are therefore subject to intense scrutiny when they are launched (unlike other medical treatments such as surgical procedures which are only subject to peer review). Governments and

politicians seem often unaware of the contributions made by the pharmaceutical industry in terms of long term cost-savings compared with hospital and ambulatory sectors, not to mention the on-going services, (e.g. monitoring adverse effects, research into new indications, improvements in delivery, etc).

11. Unfortunately, reductions in health care expenditures are not always based on rational considerations. There is therefore a need to develop objective criteria for judging cost controls in order to manage more effectively the health care systems. BIAC has developed a list of criteria designed to evaluate the effects of cost containment measures on health care services, including pharmaceutical products:

- Does the measure foster improved health outcomes?
- Does the measure foster innovation?
- Does the measure promote fair competition?
- Does the measure improve the access of all patients to all appropriate therapies?
- Does the measure promote patient responsibility?
- Does the measure allow for education and information to physicians, patients, pharmacists and other health care providers?
- Does the measure permit the freedom of physicians' judgement in prescribing the optimal treatment for the individual?
- Does the measure promote real cost-efficiency?
- Does the measure serve the public interest?

IV. PRICING AND REIMBURSEMENT

12. The pharmaceutical industry represents the private sector in what are essentially public health care systems. However, pharmaceutical companies are not always able to operate on a competitive basis due to distortive competition policies and inappropriate incentives in various health care markets. The following principles of pricing and reimbursement have been developed by the industry to correct this situation:

13. Pricing:

- Companies should be free to market products at a competitive price of their choice upon receipt of marketing authorisation (i.e. registration).

14. Reimbursement:

- Negotiations between companies and social security authorities/insurance funds should take place with respect to the reimbursement of individual new products and should be on a percentage basis.
- Products of doubtful or unproven efficacy and, for different economic reasons, over-the-counter products, should be removed from reimbursement lists.

15. Co-Payment:

- All medicine should be subject to co-payment.
- It should be possible to offset co-payment for those who are unable to pay.

16. Dispensing:

- There should be a mechanism to encourage competition among generic

- products (off-patent products available from multiple sources).
Pharmacists should be required to dispense the product as prescribed by the physician.

17. Finally, and on a broader note, it is worth quoting the recent OECD publication on "New Orientations for Social Policy" which states:

"Governments can no longer be thought of as providers of largesse, but instead, as partners that enable and empower people to take initiatives on their own behalf and to exert greater control over the circumstances of their lives. The new partnership between the government and the people, taking into account different national social traditions, is not simply an effort to shift responsibility, but to maximise human potential and the choices available to individuals, thereby increasing personal dignity and the resources available to the economy."