Health Care

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The Cost Of Staying On The Cutting Edge

Jason Plautz
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Opponents of health care reform are fond of citing a speech by former Labor Secretary **Robert Reich** during which he imitates an imaginary and brutally honest presidential candidate stumping about health care.

"I'm going to use the bargaining leverage of the federal government... to force drug companies and insurance companies and medical suppliers to reduce their costs," he says. "But that means less innovation, and that means less new products and less new drugs on the market, which means you are probably not going to live that much longer than your parents."

It's a sentiment often voiced by players on both sides of the debate, including reform supporters like **Howard Dean** and Cleveland Clinic CEO **Delos "Toby" Cosgrove**. These observers warn that the current legislation's focus on cutting costs and expanding coverage could come at the cost of innovation and research, often heralded as the best part of America's health care system.

Price controls on pharmaceutical companies could lead them to cut money from research, the thinking goes; meanwhile, encouraging hospitals to practice evidence-based medicine could turn them away from new developments. Some within the health care industry say that may even have the effect of jeopardizing cost reductions, since innovative new treatments or drugs can potentially lower overall costs.

The U.S. is widely considered the leader in health care innovation, from new drugs and treatment methods to new ways of paying for insurance. A recent study from the libertarian Cato Institute found that of the top 27 innovations from 1975 to 2000 (based on mentions in the *New England Journal of Medicine* and the *Journal of the American Medical Association*), 20 originated at least in part in the U.S. Between 2000 and 2005, 52 of the 71 new drugs receiving clearance in both the U.S. and European Union started here.

"Part of it is that we spend more money and that includes spending on research," said **Raymond Raad**, coauthor of the Cato report. "Doctors are being paid more, which means more high-quality and intelligent people.... It's creating an environment, I think, where the final product is paid more for. That is giving a larger return on innovation, which keeps innovation going."

But it's that very spending that proponents of health care reform hope to reduce. The White House, for example, struck a deal with pharmaceutical companies that would lower prices across the board in an attempt to drive down skyrocketing prescription drug prices. Raad predicts any effort to cut profits will mean reduced spending on research. "When you cut that money, you might be cutting it from the next blockbuster drug," he said.

Of course, it's not always that cut-and-dried. Research and development takes up a small part of overall spending -- the Congressional Budget Office puts it at 8 percent to 10 percent of overall spending. So it would stand to reason that cuts could be made elsewhere in executive pay, marketing or overhead costs before research. Drug companies disagree, insisting they are spending appropriately and there is no fat to trim.

"The hospital people say almost everything they do is legally required and there's no variable input they can alter," said **R.J. Kirk**, chairman and CEO of the venture capital firm Third Security and a leading investor in the biotech industry. "That's not a business that inspires me to become an investor."

Clifford Goodman, a vice president at the Lewin Group, a health care policy research firm owned by UnitedHealthCare, said that while the drug market would change, it would actually get better for consumers because companies would be forced to find drugs to solve new problems rather than simply producing me-too drugs that weren't appreciably better.

Another concern is with the current bills' focus on pushing evidence-based medicine. Legislation would set up national care councils designed to research and recommend standardized procedures, with improved health IT systems to help implement the selections. Intermountain Healthcare, based in Salt Lake City, has become known for its focus on finding effective practices and making them the norm, highlighted in a recent *New York Times Magazine* article.

Despite Intermountain's successes, some worry that standardizing treatment would lead hospitals and providers into a rut. At an *Atlantic* forum in October, the Cleveland Clinic's Cosgrove noted that after evidence-based systems were set up in England and hospitals were given financial incentives to follow them, their cutting-edge performance dropped, and mortality rates now trail those in the U.S.

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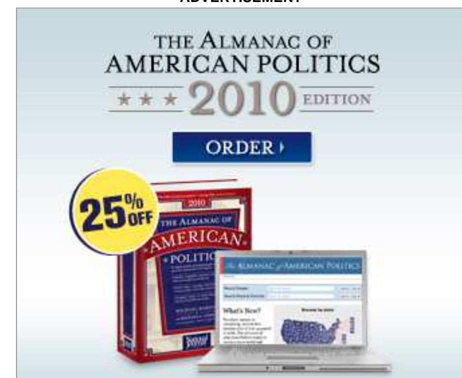

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"You can protect innovation by not tying the finances to what is the best," Cosgrove said after the discussion. "You have to let the market decide. It's fine to put the data out there, but you can't let the finances dictate it like they do in England."

Kirk agreed with Cosgrove's emphasis on free markets but said the government could also offer financial incentives for groups that were actively seeking better health outcomes, especially among therapeutic firms. He said he's encouraged by a package of amendments proposed by Sen. **Mark Warner**, D-Va., and 10 other freshman Democrats, which he thought was the first legislative push to fostering innovation.

Under the package, the government would move away from the fee-for-service system and start paying hospitals for value. It would also expand pilot programs in bundling and accountable care organizations and give the Health and Human Services secretary more authority over cost reductions. **Aryana Khalid**, a health care legislative aide for Warner, said the bill always had language around improving quality, but this took it a step further.

She said that the new amendments would avoid the potential pitfalls of an evidence-based system by constantly re-evaluating recommended treatments. "The payers, the providers and especially the private payers are constantly going to want to innovate," Khalid said. "If you couple that with a national quality strategy, you will be evolving."

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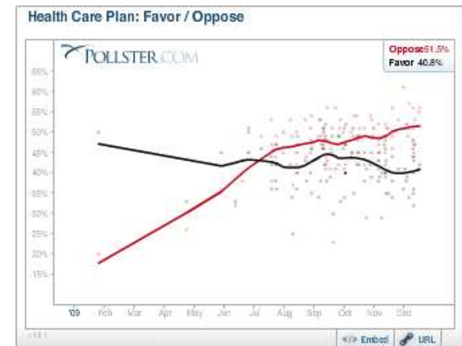

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