Editorial: Bring Down Health Care Costs

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Rising health care costs continue to put a burden on most Americans. Health insurance premiums rose an average of 5 percent this year in South Carolina, well above the increase in wages. So recent Trump administration moves to put pressure on hospitals and the drug industry to lower prices are welcome.

The moves borrow a page from the leading Democratic presidential candidates. But the effects of the contested orders remain to be seen.

One Trump target is the drug pricing model used by Big Pharma. Taking advantage of patent rights and laws preventing competition, the industry seeks to recover the often very high costs of developing and marketing new drugs in the United States. It then sells the same drugs much more cheaply abroad, because once the overhead costs are covered, it is very inexpensive to make new pills.

In effect this approach means U.S. consumers and taxpayers subsidize foreign use of pharmaceuticals.

Recent studies have repeatedly found that Americans pay between three times and seven times more for the most common prescriptions than they would pay in Canada, England or elsewhere in the developed world. In the case of insulin, a must-have drug for many diabetics, one report found that a common daily dosage here cost more than 10 times what is charged in Canada.

To fight this practice, the federal Department of Health and Human Services announced Wednesday that it proposes to launch a demonstration program under which states, pharmacies, and drug wholesalers may purchase approved drugs from Canada. The list excludes any drug not taken orally and all biologic drugs. The proposal now faces a mandatory public comment period before it can be implemented.

Democratic candidate Sen. Bernie Sanders of Vermont has long proposed that Americans should be allowed to buy drugs from Canada. Many already do, although it is illegal because of fear of adulterated drugs. HHS Secretary Alex Azar said modern drug supply chain innovations make the proposal safe.

The potential savings could be huge. Unfortunately, the rules proposed by HHS would exclude insulin. An exception should be made for this injected drug.

Big Pharma can be expected to fight the proposal in the federal courts. It is already running television ads implying that interference with its pricing model will lead to fewer new drugs. But that is not necessarily so. The likely long-term result of the HHS plan, if successful, will be that the price of drugs in the United States will come down closer to the worldwide average, and the prices paid abroad will rise. Development costs of successful drugs will just be spread more broadly.

The other major administration move against high medical prices was announced July 29. It requires hospitals, beginning in January, to publish the prices they negotiate with insurance companies for medical services.

A decade ago the Dartmouth Health Atlas demonstrated that there is a wide variation in the cost of medical services among hospitals around the United States that has nothing to do with relative effectiveness. This year research by the Rand Corp. confirmed that this variation still exists. In theory, publication of the negotiated prices for hundreds of services will provide an incentive for medical service providers to compete on price as well as quality.

But The New York Times reports the hospital industry is expected to go to court to stop the new directive. The South Carolina Hospital Association told The Post and Courier, "We believe that this new rule creates a major burden for hospitals, particularly small, rural facilities that will have a difficult time meeting the reporting requirements."

Nevertheless, both measures are popular. And even if the industry succeeds in blocking the orders, the prospects of bipartisan action in Congress to achieve the same goals remain high. The orders may not solve the medical price problem, but they are steps in the right direction.