Editor's Note

Prescription Drugs and Administrative Costs

Most Americans are surprised to learn that in 2008 prescription drug overdoses—not illegal drugs like cocaine or heroin—were the leading cause of accidental death in the United States. The Centers for Disease Control now classifies prescription drug abuse as an epidemic (Sabet 2012; *New York Times* 2012). Although this themed section of *JHPPL* does not focus on prescription drug *abuse*, it does consider the political and systemic factors that surround this issue and many others related to prescription drug policy.

For example, the article by Denis Arnold and James Oakley examines US policy toward direct-to-consumer advertising (DTCA). Essentially, the US government relies on industry self-regulation to determine appropriate ethical standards and practices of DTCA. Arnold and Oakley review the "guiding principles" for ethical DTCA developed by the industry and then examine how well the industry follows its own ethical standards. Arnold and Oakley find numerous cases of industry noncompliance. They argue that, similar to physician review boards, the pharmaceutical industry engages in setting standards as a strategic method to avoid federal regulation. Arnold and Oakley conclude with a set of policy recommendations to prevent deceptive practices under industry self-regulation.

While some governments rely on industry self-regulation, others take a more proactive approach. Ideally, every government sets a clear and rational drug safety program. Joel Lexchin and colleagues document the system in Canada and focus on the dynamics of federalism in setting up

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the Canadian system. In particular, they interview drug plan officials in eight provinces and two territories and ask about their views on the strengths and weaknesses of using the federal government's safety and efficacy information to determine drug safety and effectiveness, and ultimately to determine which drugs to list and retain on their formularies for provincial drug benefit plans. In addition to soliciting their views on strengths and weaknesses, Lexchin et al. also attempt to understand better how provincial officials make decisions—how they weigh the problems of information asymmetry and how they view the role of safety research (e.g., Health Canada and the Drug Safety and Effectiveness Network) in aiding decisions. With this research, Lexchin et al. conclude by helping us understand the implications for designing improved pharmaceutical safety systems in other countries.

Indeed, we need clear and effective regulations not only within countries but on the international front as well. The article by Félix Lobo and Roger Feldman reviews the creation of international generic drug names, International Nonproprietary Name (INNs) and whether this system provides social benefits. Developed in the 1950s by the World Health Organization, INNs are common, global scientific nomenclatures that were designed to increase transparency and reduce transaction costs to favor competitive international trading of generic drugs. Lobo and Feldman review the evidence from the past sixty years to determine the effectiveness of INNs. In countries that mandate manufacturers to designate pharmaceuticals with INNs in labeling and advertising, they find many benefits. They argue, however, that the benefits of INNs are not fully realized, since prescribers are not required to use INNs. As a result, they recommend using brand names and INNs in prescribing as well as in drug labeling.

The theme of all three articles is a concern about deception and the asymmetry of information where consumers or policy makers lack the information needed to make good decisions. While the specific policy details necessarily vary, all three articles call for more transparency regarding information, as well as the standardization of terms and concepts across decision-making units.

Outside the themed section, an article from Kip Sullivan reviews how policy makers think about administrative costs and also considers how they should think about such costs. One crucially important distinction, which Sullivan brings to light, is the Medicare Boards of Trustees' report indicating that administrative expenditures are 1 percent of total Medicare spending, while the National Health Expenditure Accounts indicate administrative costs are 6 percent. Sullivan explicates the methodological

reason for this distinction, examines the controversy over the methodology of the two reports, and concludes with a discussion of how the two measures should be used. The distinguishing factor between the two figures is that the 1 percent counts only administrative costs of the federal government, while the 6 percent also includes administrative costs incurred by the Medicare Advantage plans and Part D plans. As Sullivan so eloquently discusses, the distinction is simple, but the political debate and rhetoric surrounding administrative costs belie this clarity and suggest misdoing or deceptive behavior on the part of the federal government. This is a crucially important article first for getting the facts straight about Medicare's administrative expenses and, second, for considering the political rhetoric surrounding Medicare's privatization policies.

Finally, we also have a Report from the States from Susan Giaimo, who reviews a critically important part of the Patient Protection and Affordable Care Act legislation that has received little attention—funding from the federal government for states to set up their own cooperatives, which can then contract with state exchanges. Giaimo begins by documenting the political dynamics that surrounded the PPACA co-op provisions. She then analyzes Common Ground Healthcare Cooperative (CGHC), which was developed in Wisconsin and was one of the first co-ops to receive federal funding under the PPACA, to explore the political and technical challenges facing the creation and implementation of cooperatives at the state level. Giaimo concludes by considering the potential impact of co-ops on the US health care system and, in particular, whether co-ops will be able to provide the affordable health care to small businesses that is so desperately needed.

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References

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