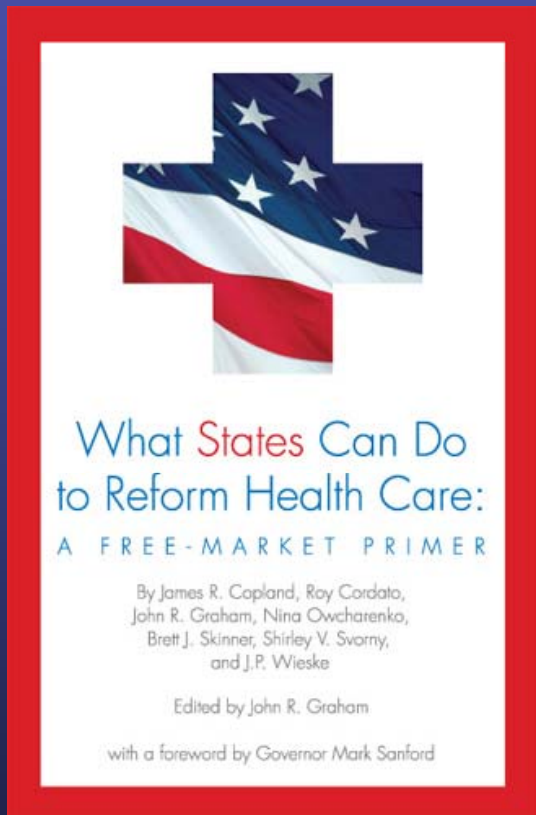


# Competition in Health Care Delivery



Texas Public Policy Foundation  
6th Annual Policy Orientation  
for the  
Texas Legislature  
**Sheraton Austin Hotel**  
**Austin, TX**  
**January 9, 2008**

**John R. Graham**  
**Director, Health Care Studies**  
**Pacific Research Institute**

# Health Policy Is Hard



THE WALL STREET JOURNAL.



"This could be a highly complicated procedure involving at least three different insurance companies."

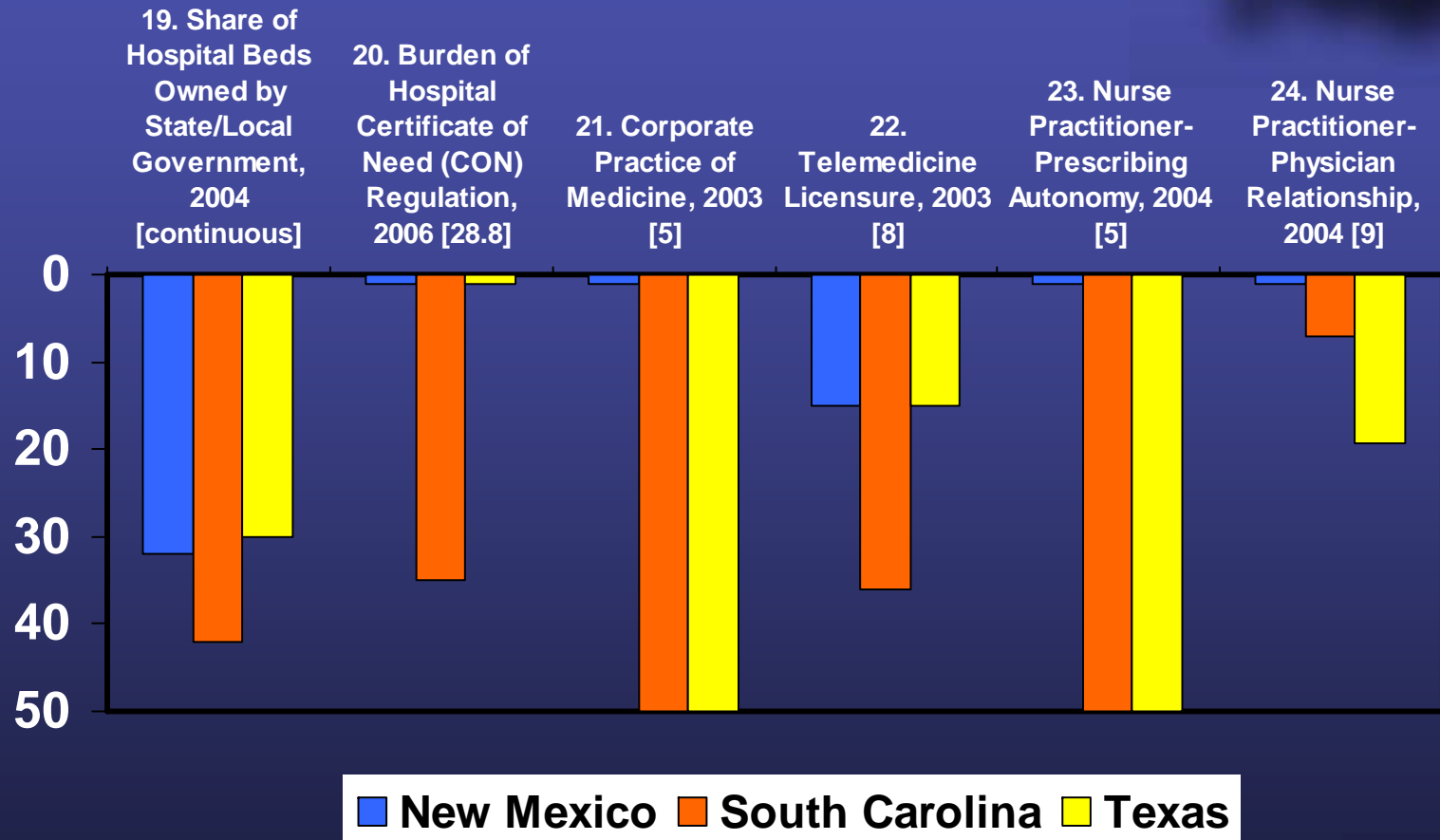
# *U.S. Index of Health Ownership*



## 24 Variables in 4 Categories (TX 34<sup>th</sup>)

1. Government Health Care (TX 18<sup>th</sup>)
2. Private Health Insurance (TX 44<sup>th</sup>)
3. Medical Tort (TX 11<sup>th</sup>)
4. Provider Burden of Regulation (TX 29<sup>th</sup>)

# Provider Burden of Regulation





## health policy prescriptions

Vol.3 No.4  
November 2005

### Direct-to-Consumer Pharmaceutical Advertising: What Does the Literature (Not) Say?

By John R. Graham

#### Key Points

1. Theory and evidence do not support the notion that Direct-to-Consumer pharmaceutical advertising harms patients' health.
2. With the advent of "consumer directed health care," in which patients have more control over their health care dollars, pharmaceutical advertising will become even more valuable, and we should expect generic drug makers to advertise, too.
3. Though benefiting patients and the research-based pharmaceutical industry, such advertising threatens others' political objectives.
4. Costs associated with the Medicare prescription drug benefit will put more pressure on politicians to restrict this valuable free speech.

innovation, and reinforcing the reduction in demand. People would eventually use trains and buses more, eventually forgetting the choices that they had lost, and governments would spend less on the roads.

This is the absurd situation that existed for prescription drugs in the U.S. until 1997, when the research-based pharmaceutical industry won a right that every other American group takes for granted: free speech. Well, not exactly: Direct-to-Consumer (DTC) pharmaceutical advertising is still heavily regulated by the government. Unsurprisingly, many suspect that this advertising is unhealthy. In a poll conducted this summer by the *Wall Street Journal*, 46 percent of respondents favored either a mandatory or voluntary ban on the DTC advertising. Less than a quarter thought that it should be allowed.<sup>1</sup>

#### Hostility to Free Speech is Rising

Suppose that American politicians decided that spending on roads and highways was "unsustainable." How could they cut those costs? (I realize that this is extremely unlikely in our pork-laden U.S. government, but bear with me. It's just a thought experiment.)

One tactic would be to pass laws banning automobile advertising. Governments would invest in research showing how inaccurate and confusing automobile ads are. Because car manufacturers are only interested in profits, their ads simply show the benefits of cars, but never how many people are injured in car accidents, how expensive it is to operate and insure a car, how much time drivers spend in traffic jams, or how they can never find a parking space.

With seductive advertising prohibited, people would buy fewer cars. Furthermore, because manufacturers would not be allowed to tell potential customers about the different qualities of their competing models, they would invest less in product development, slowing

The government is also turning hostile. In November, seniors began to enroll in the Medicare Part D prescription drug benefit, an entitlement that will cost billions of dollars. Naturally, the government is concerned that DTC advertising will lead to higher costs. The withdrawal of Vioxx, a once popular painkiller that has been linked to potentially deadly side effects, has also prompted calls for more state control.

On November 1, the Food and Drug Administration held two days of hearings about regulating DTC advertising. This followed another hearing by the U.S. Senate Special Committee on Aging. The research-based pharmaceutical industry, growing cautious, has wrapped itself in a cloak of 15 "Guiding Principles" that are supposed to make us less afraid that drug makers are exaggerating the benefits of their medicines.<sup>2</sup>

#### The Scholarly Literature: A Bias Towards Control

This year saw the first review of the scientific literature on DTC advertising.<sup>3</sup> Remarkably, given the chatter around the issue, it found only four studies that

Pacific Research Institute | 755 Sansome Street, Suite 450 | San Francisco, CA 94111  
T: 415/989-0833 | F: 415/989-2411 | www.pacificresearch.org

# John R. Graham Director, Health Care Studies Pacific Research Institute

## (415) 955-6104

## jgraham@pacificresearch.org

