Managing Health Care Costs Is a Myth, Says Novartis Head

BY NANCY DUVERGNE SMITH

Health care costs are rising worldwide at rates that alarm governments, businesses, and individuals, acknowledged Daniel Vasella, M.D., chairman, and CEO of Novartis AG, a global pharmaceutical corporation. Prescription drugs, however, are a small portion of medical expenditures. The real cost drivers are hospitals and an aging population, he told a MIT audience at the Sept. 18 Industry Leaders In Technology and Management lecture.

“Health care expenditures as a percent of GDP have grown in most countries,” Vasella said during his talk, Pharmaceuticals: Just a Cost Factor? “In the U.S. in 2001, $1.4 trillion was spent overall on health care - and drugs made up 10 percent of that. If you look at the press coverage, 90 percent is focusing on the 10 percent. Yet most countries have hospital costs around 40-50 percent with very little focus on managing these costs.”

Drug companies are an easy target, he said, because they tend to be international, remote from patients, and publicly state their profits. People and governments tend to like their own doctors and hospitals, so they are less apt to question their fees. Prescription drug expenditures total about 1.7 percent of the GDP, he said, but Americans spend more on videos and music than on medicines.

Public health care discussions often assume that costs can be contained and, perhaps, reduced. “We have to be aware that is an illusion,” Vasella said. “With an increase in numbers of seniors and a decrease in the birth rates in all industrialized countries, the outcome is undeniable. There will be more need and it’s impossible to reduce health care expenditures unless we ration care. The fact is that costs will increase—the question is, how much?”

Health care expenditures gradually increase with age then escalate at age 50-55, costing about $3,500 a year per person at their peak, he said. The world population is aging and, in North America, the percentage of people over 60 years old is expected to grow from 16 percent in 1995 to 30 percent in 2040.

Pharmaceuticals, however, are not just a cost factor, Vasella believes. The industry has contributed to the worldwide increase in health and quality of life, including rising life expectancy and decreasing disability - a factor that dropped from 26 percent of U.S. seniors in 1982 to 19 percent in 1999. Novartis, under Vasella’s leadership since 1996, has boosted access to critical medicines by instituting reduced fee or free cancer, malaria, and leprosy drug therapies.

Vasella, who led the merger of Sandoz and Ciba-Geigy, strengthened the company’s research capacity by establishing a Genomics Institute and by moving research headquarters to a 240,000 sq. ft. facility adjacent to MIT. The company projects 2003 sales of $24 billion.

Vasella concluded the talk, sponsored by MIT’s Industrial Liaison Program and the Center for Technology, Policy, and Industrial Development, with a Mongolian proverb: “Being sick, one thinks of the cure. Being healthy, one thinks of the cost.”