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Editorial of Special issue

"Industrial Organisation of the Health Sector and Public Policy"

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This special issue includes a selection of papers presented at the 16th European Health Economics Workshop held in Toulouse on the 28-29 May 2015. The special issue focuses on microeconomic theoretical models in health economics, with a strong emphasis on applications of industrial organization, contract theory and public economics. The common aim is to address and answer key policy questions through rigorous and formal analyses.

The papers address specific issues and interventions in relation to nutritional policies, regulation of the pharmaceutical industry, long-term care and the role of incentive schemes in stimulating healthcare provision. Both normative and positive approaches are employed.

Nutritional policies

Cremer, Goulão and Roeder investigate the determination of fat taxes within a political economy (median voter) approach, under a general model where individuals differ both in income and the degree of misperception of the long-run health effects concerning the consumption of fat and healthy goods. Tax revenues are used (earmarked) to reduce health insurance premiums or to finance a subsidy on the healthy good. They find that the fat tax determined through the political process is generally too low (or lower compared to a fat tax chosen by a utilitarian policymaker). The earmarking rule can be used to boost the political support for the fat tax, but this may involve a trade-off between the fat tax and a subsidy for a healthy good.

Requillart, Soler and Zang investigate how firms strategically react to nutritional policies when there is product differentiation and individuals differ in both the preferences for a good and its healthy content. They compare three policies: a minimum quality standard, an excise tax on the nutrient content of the unhealthy product, and an excise tax on the nutrient content of all products. They find that the first two policies dominate the third one, and that the choice between the first two depends on the relative importance of the taste parameter.

Regulation of Pharmaceuticals

Gonzalez, Macho-Stadler and Perez-Castrillo investigate whether pharmaceutical companies have adequate incentives to invest in research and development of breakthrough and follow-on drugs. They study the price decision of a firm introducing a new drug, and analyze the firm's incentives to invest in R&D when a pioneer drug is already on the market. They show that while private and social incentives to invest in R&D processes coincide for incremental innovation ventures, private incentives are lower than social ones when the process is radical. Consequently, firms invest too many resources in research activity of follow-on drugs with only incremental innovation.

Jobjornsson, Forster, Pertile and Burman study the incentives for a pharmaceutical company to invest in research and development under uncertainty on the willingness to pay from the payer. They show that the effect of lower uncertainty is in general indeterminate. For low and high levels of uncertainty, prices and incentives to invest go in the same direction: if price goes up (down) so does the incentive to innovate. For intermediate levels of uncertainty, lower uncertainty reduces prices, increases profits and stimulates investments, therefore benefitting patients, the insurer and the firm.

Brekke, Canta and Straume study the effect of reference pricing on competition between generics and brand-name producers, and entry of generics producers. The reference price specifies a maximum reimbursement for a category of drugs with therapeutic similar effects. They show that reference pricing might induce brand-name producers to price more aggressively, which in turn might discourage generics entry. Contrary to expectations, reference pricing might not reduce expenditure. This does not arise under price cap regulation which instead always stimulates entry of generic producers.

Long term care

Cremer, Lozachmeur and Pestiau investigate the design of the optimal insurance contract for long term care in the presence of ex post moral hazard, when informal care, can be provided by family members. The study shows that the optimal coinsurance rate is generally higher (the reimbursement rate is lower) than in a standard insurance model, and this is due to the potential crowding out of informal care.

Ponthiere and Pestieau consider the incentives for timing of births in regard to long-term care. Individuals make choices regarding when to have children anticipating that their children can provide care for them in later life. However, individuals are typically myopic, incorrectly anticipate the incentives that their children will face when adults and do not take account of their decisions on the overall structure of the population. In an overlapping generations model it is shown that there will be a tendency to delay births too long and that this inefficiently reduces the future supply of long-term care. There is thus a role for public policy in encouraging earlier parenthood.

Incentive schemes for healthcare provision

Barigozzi and Burani derive the optimal payment schemes (eg a basic wage and a bonus) for health workers, when a for-profit and a non-profit hospital compete. Health workers differ in both ability and intrinsic motivation and these are private information. They show that motivated workers tend to provide more care and are paid less, and that allocative distortions decrease with the degree of competition.

Brekke, Levaggi, Siciliani and Straume study the effect of cross-border patient mobility across countries (or regions) and its effects on quality incentives when transfers across countries are based on pricing of the Diagnosis Related Groups type, and income varies both within and across countries. They show that facilitating mobility thorough simpler administrative procedures may have an adverse effect on the quality of some countries, and there is therefore scope for refining current transfer arrangements.