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Dynamic Efficiency:

“(How) Should We Capture
the Dynamics of Innovation?”

While cost-effectiveness (CE) analysis has provided a guide to allocating often scarce health care resources, less emphasis has been placed on the effect of such criteria on the behavior of innovators who make health care technologies available in the first place. A better understanding of the link between innovation and cost-effectiveness analysis is particularly important given the large role of technological change in the growth in health care spending and the growing interest of explicit use of CE thresholds in leading technology adoption in several Westernized countries.

Standard CE as currently practiced evaluates the benefits and costs of a technology taking the discovery as given. By controlling the quality adjusted price of a technology, it controls the total price given quality or effectiveness. It therefore often clashes with interventions to stimulate innovation in the first place, such as patents. Producer appropriation of the social surplus of an innovation is central to the innovation effects of CE adoption criteria. To the extent that such incentives are deemed either too low or too high, CE based reimbursement policies may be appropriately raised or lowered to balance innovation and access.