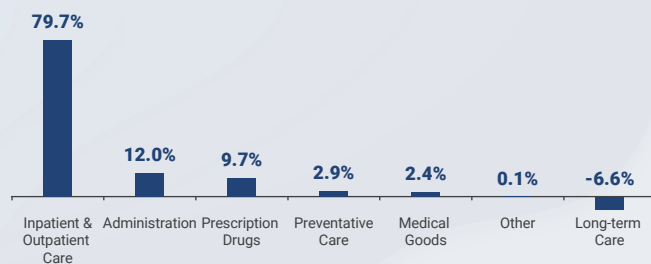


# Prescription Drug Spending Is Not the Driver of the Health Spending Gap Between the U.S. and OECD Countries

Much of the recent debate over health care affordability has focused on the role of prescription drugs in the U.S. compared with other developed nations. However, prescription drugs represent just one component of total health expenditures and of the spending differences between the U.S. and other countries. Advancing meaningful solutions for U.S. health care sustainability and affordability requires a baseline understanding of the breakdown of costs and which sources of cost drive the large differences in spending across developed countries.

A Peterson-KFF Health System Tracker report found that per capita health spending in the U.S. exceeded comparable OECD countries by \$5683 in 2021. The largest contributor was higher inpatient and outpatient spending in the U.S. (payments to hospitals, clinics, physicians, and associated service fees), which accounted for nearly 80% of the difference (Figure 1).<sup>i</sup> Higher administrative spending represents a notable share of the gap, approximately 12% in the OECD comparison, which reflects system “overhead,” including insurance operations, billing/claims processes, and administration of public programs.<sup>i</sup> Prescription drugs and medical goods represented 12.1% of the difference in health spending.<sup>i</sup> Further analysis of this category indicates that the prescription drug portion (including brand and generic drugs) accounts for an estimated \$550 or 9.7% of the total \$5683 spending difference<sup>iii</sup> (Figure 1).

**Figure 1. Per Capita Health Spending Gap Between the U.S. and Comparable OECD Countries by Category, 2021<sup>iii</sup>**



**Prescription drug spending accounts for just 9.7% of the per capita spending difference with comparable OECD countries—less than administration costs at 12% and a fraction of the nearly 80% driven by inpatient and outpatient services.**

## Taking a Holistic View

Overall health care spending per capita in the U.S. is nearly twice the spending in comparable OECD countries, with higher spending on inpatient and outpatient services accounting for nearly 80% of the difference. Prescription drug costs at 9.7% account for a smaller share than administrative costs at 12% and are vastly lower than inpatient and outpatient contributions to the total difference in spending.<sup>iii</sup>

The second-highest contributing factor to the gap is administrative costs, when prescription drug costs are examined as a separate category. The fragmented U.S. system drives up costs due to billing inefficiencies,<sup>v</sup> complex coverage and authorization processes, and limited payer-provider interoperability,<sup>v</sup> among other challenges.

Appropriate use of prescription drugs may help offset the costs of inpatient and outpatient care, the categories responsible for the largest share of the spending difference between the U.S. and peer OECD countries.<sup>vi,vii,viii</sup> A focus on any one category, especially prescription drugs that represent only a small portion of the difference in spending, is unlikely to materially close the overall gap or meaningfully improve the efficiency and quality of care and outcomes in the U.S.

**References:** i. <https://www.healthsystemtracker.org/brief/what-drives-health-spending-in-the-u-s-compared-to-other-countries> ii. <https://stats.oecd.org/Index.aspx?DataSetCode=SHA> iii. Magnolia Market Access analysis of the Peterson-KFF Health System Tracker: What drives health spending in the U.S. compared to other countries?<sup>ii</sup> and the OECD (Organisation for Economic Co-operation and Development) Health Statistics dataset.<sup>ii</sup> Comparable countries include Austria, Belgium, Canada, France, Germany, the Netherlands, Sweden, Switzerland, and the United Kingdom. Numbers may not sum to 100 due to rounding effect. iv. <https://news.harvard.edu/gazette/story/2018/02/electronic-health-records-dont-reduce-administrative-costs> v. [https://www.hamiltonproject.org/assets/files/Cutler\\_PP\\_LO.pdf](https://www.hamiltonproject.org/assets/files/Cutler_PP_LO.pdf) vi. <https://www.ahajournals.org/doi/pdf/10.1161/JAHA.124.037357> vii. <https://www.tandfonline.com/doi/pdf/10.1080/13696998.2025.2526282> viii. <https://link.springer.com/article/10.1007/s10620-023-07906-4>