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The Wrong Medicine

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What would you think of someone who withheld curative medicine from a sick person? Many governments are, in effect, doing just this. There are billions of people throughout the world suffering from various ailments who could be made well if only more money were invested in new drug research and development (R&D). The reason this money is not invested is because all too many countries outside the United States have price controls on drugs, leading to under-investment in new and improved medicines. These same price controls also have the side effect of making drugs more expensive for U.S. consumers.

Many in Congress and the media demand more re-importation of U.S. made pharmaceutical products from countries with price controls, like Canada, or direct price controls in the U.S. These so-called solutions to the "high price of drugs' problem" will, in fact, only worsen the situation. To solve the problem, it is important to first diagnose it correctly.

New drug research and development, and obtaining Food and Drug Administration approval, are extremely expensive. On average, it takes 12 to 15 years and an expenditure of more than $800 million, before a company can sell a new drug. Worse yet for the pharmaceutical companies, 7 in 10 drugs brought to market do not generate enough revenue to cover the average development cost. U.S. pharmaceutical companies now invest more than $35 billion per year in research to develop new disease treatments. This is more than the entire pharmaceutical industry (outside the U.S.) invests in R&D.

Again, the problem of inadequate R&D investing by foreign pharmaceutical companies is largely due to price controls. Many countries have state health-care systems that are monopoly buyers of prescription pharmaceutical products.

As noted, drugs are extremely costly to develop, but once developed are often very inexpensive to produce. For instance, a particular pill might only cost $1 to produce, but would cost $800 million to develop. If the total demand (over its patent protected life) is only 8 million pills, the company will have to charge $100 per pill to cover development cost. In addition, another $1 may be necessary for its production, plus several more dollars to cover overhead and marketing costs, plus some modest profit. A foreign government monopoly buyer might say to a drug company, "If you wish to sell this particular product in our country, you must sell it to our state monopoly health care system, and we are only going to pay you $10 per pill." If the company refuses, the foreign government might say (as some often do), "We are going to demand a compulsory license to let one of our own domestic pharmaceutical companies make the pill and sell it at a cheap price." The U.S. company, faced with such a dilemma, has little choice but to sell the pill at $10, because that price is high enough to cover production and overhead costs and contributes, at least, a tiny amount to the development cost.

Unfortunately, it is the U.S. consumer who gets hurt because of the foreign misbehavior. Going back to our example, if the worldwide demand is for only 8 million pills, and the U.S. demand is only for 2 million of the 8 million, and the other countries do not contribute significantly to the R&D cost of the pill -- then the entire $800 million cost will fall on U.S. consumers. So, rather than having to spend $100 plus per pill, U.S. consumers must spend $400 plus per pill.

Forcing U.S. pharmaceutical companies to export unlimited amounts of prescription drugs to foreign countries with price controls, and then allowing unlimited re-imports, will only make the situation worse. If the drug companies are forced to sell their products below full cost, including R&D for both the successful and unsuccessful products, they will have no choice but develop fewer new products, which will result in greater misery and many unnecessary deaths.

If there were no price controls in the world on prescription drugs, development costs would be shared by the world market (remember the U.S. has only about 5 percent of the world population). This would mean many more drugs developed -- saving millions of lives, and U.S. consumers would pay a small fraction of what they are now forced to pay for new drugs.

The U.S. needs to strongly pressure other countries to abolish all price controls on U.S. pharmaceutical products. We can do this in various ways:

(1) Withhold foreign aid from countries with price controls.
(2) Bring charges of unfair trade and destructive trade practices.
(3) Demand the sanctions by the United Nations and the Organization for Economic Cooperation and Development against countries with price controls on our products. We can prod the U.N. and OECD by withholding our dues until they act.

If foreign countries wish to subsidize prescription drugs for their own citizens, that is their business.

But we have the moral and ethical right to demand these parasitic countries stop killing the world's people with price controls on U.S.-developed drugs.

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