Testimony on H. 2683,

An Act Establishing the
Massachusetts Prescription Drug Fair Pricing Program

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As always, we testify and write only for ourselves, not on behalf of Boston University or any other party.

This bill is a useful step forward. We urge that you support it.

There are several reasons.

This year, U.S. prescription drug spending of over $250 billion provides the world's drug makers with about one-half of their world-wide revenue. An impressive accomplishment by only 5 percent of the world's people.

Yet some 70 million of us have no prescription drug insurance, others have meager coverage, and rising drug spending boosts insurance premiums.

In Massachusetts, retail prescription drug spending this year will be about $4.2 billion. When additional spending in hospitals and nursing homes is counted, the total approaches $5 billion.

We will spend about as much on medications this year as the $4.5 billion total to be spent by Denmark plus Sweden—nations with double our population, and nations that protect all of their people against the cost of medications.

Yet over one million of us still have no prescription drug insurance. And no one knows how many will sign up for the new Medicare Part D coverage.

To cover all people in Massachusetts, we could throw more money at the drug makers. They say they want it—to finance more research, of course. But we can't afford it. And they don't really need it.

There are better ways. One is this bill, which seeks to win discounts from drug makers.

An alternative would be to empower state government to act as a wholesaler. It would never take physical possession of medications. These would continue to flow through today's distribution channels.

Rather, the Commonwealth would negotiate a simple package deal with each drug maker. If you, Drug Maker X, sold $400 million of your products in Massachusetts last year, for example, we'll give you $416 million this year, allowing 4 percent inflation. And we'll pay you the added manufacturing and distribution cost of all increases in volume. But you have to fill all prescriptions written for Massachusetts patients.

In this way, the drug maker is financially whole. Its profits and its sums available for research don't fall. But everyone in Massachusetts now gets the medications he or she needs. Total spending rises by the actual cost of manufacturing, distribution, and dispensing. But these are not very expensive. That's because once the research is completed and the factory is built, the marginal or incremental cost of making more pills is tiny. Distributing and dispensing aren't very costly, either.

This is easiest to do if all drug purchases are channeled through a single buyer. Indeed, all financing could be carved out of existing private and public insurance plans and directed to the single buyer.

The low marginal cost of prescription drugs means that it is very inexpensive to finance needed medications for all who live in Massachusetts. This is the easiest problem to fix in health care. For reasons we won't detail here, covering all people is also one of the best foundations for boosting investments in breakthrough research—something the drug makers talk about a great deal, but where their actual performance falls well short of their words.

And Massachusetts has the prescription drug buying power of a medium-size European nation, if we pool all of our purchasing together statewide. We should be able to negotiate a peace treaty with drug makers.

Thank you for the opportunity to appear before you today and to submit this written testimony.