Americans pay more; here’s why

By Dennis Cauchon
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Why does the world’s best-selling drug, the heartburn medicine Prilosec, cost $3.30 a pill in the United States but only $1.47 in Canada?

Why does the allergy drug Claritin cost almost $2 a pill in the United States but only 41 cents in Great Britain and 48 cents in Australia?

Why does a year’s supply of Rilutek, the only drug approved to treat Lou Gehrig’s disease, cost $9,000 in the United States but only $5,000 in France?

Why does the United States have the highest drug prices in the world?

That’s the question President Clinton posed last month when he ordered a comprehensive report on why drug prices are so much higher in the USA than elsewhere. The study is a presidential counterpunch to the pharmaceutical industry, which Clinton blames for killing his plan to add prescription drug coverage to Medicare for the elderly.

A USA TODAY survey found that the most popular drugs often cost two, three, even four times as much in the United States as in other industrialized nations. The overall price gap narrows considerably when cheaper generic drugs and discounts negotiated by insurers and managed care companies are taken into account. Still, Americans pay about one-third more for prescription drugs than people in other wealthy nations.

Some lawmakers and researchers say the high prices show that the United States is being played for a sucker in the world market.

Every industrialized country -- except the United States -- imposes some form of price controls on prescription drugs. As the lone holdout, the United States pays the price, literally. U.S. consumers subsidize research and development for the world as well as the pharmaceutical industry’s substantial profits. Fortune magazine ranked the pharmaceutical business as the most profitable of all industries last year when measured by returns on equity, sales and assets.

"Pharmaceutical companies use the U.S. as their safety valve," says Alan Sager, head of the Access and Affordability Project at Boston University's School of Public Health. "If other countries negotiate or regulate to win lower prices, drugmakers raise their prices on the hapless American consumer. Our pockets are being picked."

Sager calculates that Americans overpaid for drugs by at least $16 billion in 1998 on a total drug bill of $120 billion. High U.S. prices are essentially a form of foreign aid to other wealthy countries, he says, and bringing prices down to international levels would save enough money to provide
prescription drugs to all 44 million uninsured Americans.

But the pharmaceutical industry says lowering prices to international levels would devastate research and development.

"Many industrialized countries do control prices, but we don't think the solution is to emulate those practices," says Judith Bello, executive vice president of the Pharmaceutical Research and Manufacturers Association. "If our country adopted price controls on a broad range of products, it would deter investors. The bottom line is less investment means less research, and less research means fewer results."

The pharmaceutical industry says price comparisons with other countries are misleading. Prices vary for many reasons, such as government price regulation, currency exchange fluctuations and the amount of sales in a country. "It is not possible to make valid comparisons of prices by country," says Bill O'Donnell of Schering-Plough, which makes Claritin.

Buying elsewhere

After her mastectomy four years ago, Ruthmary Jeffries got a tip from her oncologist: Buy prescription drugs in Canada.

Since then, the 75-year-old retired medical research assistant from St. Albans, Vt., has paid $15 a month to a Canadian pharmacy for Tamoxifen rather than the $95 a month it would cost at her local drug store.

"I could pay the extra $1,000 a year and still put food on my table and heat my house," says Jeffries, who is on Medicare and has no prescription drug coverage. "But I'm a penny pincher, and I don't like getting ripped off."

Every day, thousands of U.S. citizens leave the country to buy drugs. Most go to Canada and Mexico, but some travel to Europe or buy drugs over the Internet from pharmacies in other lightly regulated countries.

These border crossers buy only a fraction of the $120 billion in prescription drugs purchased annually by U.S. citizens. But they highlight rising pharmaceutical costs and raise questions about how prescriptions drugs fit into a world of free trade.

Dorothy Carlson, 78, a retired secretary from Mesa, Ariz., recently exceeded the $1,500 in annual coverage that her health maintenance organization provides for brand-name drugs. So Carlson headed to the border, parked her car in the United States and walked to the first pharmacy she found in Nogales, Mexico.

She paid $38 for prescription eye drops that cost $142 in her hometown. Then, she paid $7.80 for the diabetes treatment Glucophage, which costs $44 at her pharmacy in Arizona. "Other than the prices, it was very much like being in the United States. The pharmacy was clean and friendly and everyone spoke English," Carlson says.

Every day in El Paso, the "Border Jumper Trolley" takes Americans to the front door of the Farmacia Rio Grande in Ciudad Juarez, Mexico. Tourists pour from the red and green bus to buy
sombreros, velvet Elvises and cheap medicine.

More than 100 Americans shop at his pharmacy daily -- about 60% of his customers, owner Esteban Vézquez says. "They usually come looking for antibiotics and antihistamines because they are much cheaper."

A grand example of prescription tourism is planned by Patricia Baird-Windle, a Florida retiree. She plans to fly to France to help her sister get Rilutek to treat amyotrophic lateral sclerosis, commonly known as Lou Gehrig's disease. The treatment costs $4,000 a year less in France than in the USA; the drug has not been approved for sale in Mexico or Canada.

"We'll save more than enough to cover the cost of a vacation in France," Baird-Windle says. "What does that tell you about drug prices in the United States?"

**Controls are popular**

Price controls are the most important factor explaining the price gap between the USA and other countries.

The pharmaceutical industry has been fighting price controls elsewhere. Germany recently loosened controls on about one-fifth of the drugs sold there, and Japan has promised to ease price restrictions in the future.

But with rare exceptions, price controls in other countries are well-established, non-controversial programs with broad political support. If they are subject to criticism at all, it is for failing to keep prices low enough.

Price-control programs in other countries often are managed by small government agencies that are part of a larger nationalized health care bureaucracy. In Australia, a six-person government staff negotiates drug prices. They are, by some estimates, the lowest in the industrialized world. In Canada, the Patented Medicine Prices Review Board -- a part-time board unknown to most Canadians and operating on a $2 million annual budget -- helps Canadians save $1.5 billion a year off U.S. prices.

In Great Britain, the price system until this year consisted of a voluntary agreement between government and industry. After newspapers reported that some pharmaceutical companies were circumventing the agreement to limit profits, the government made the agreement mandatory, effective Oct. 1, and won an across-the-board 4.5% price cut too.

In a typical price-control program, pharmaceutical companies are required to report what they charge in certain countries. Then the government demands the average or the lowest price charged in the comparison countries. This policy of linking prices among countries has resulted in a quasi-international price for most drugs -- and a separate U.S. price.

"It's quite a different mindset over here in Europe than in the U.S.,” says Richard Marsh, head of the American Pharmaceutical Group, a London-based trade group that represents U.S. companies. "It's two different worlds."

**Other factors**
Price controls aren't the only reason U.S. drug prices are higher than elsewhere. Two other unique U.S. policies contribute:

- **Consumer advertising.** The USA is the only industrialized nation that permits prescription drugs to be advertised directly to consumers through television commercials and print ads. The industry will spend $1.8 billion this year on advertising. Most of the ads will pitch relatively expensive remedies for common conditions such as heartburn and allergies.

The payoff: An estimated 55 million people talked with doctors last year about prescription medicines they saw advertised, and doctors wrote prescriptions 84% of the time they were asked, according to a *Prevention* magazine study. The 10 most heavily advertised drugs have been responsible for 22% of the increase in total prescription drug spending since 1993, according to the National Institute for Health Care Management.

- **A prohibition on importing cheaper drugs.** The United States forbids wholesalers and retailers from buying drugs at lower prices in other countries. Such price shopping is encouraged elsewhere, especially Europe. Great Britain fills one of eight prescriptions with drugs imported from other European countries. If the price of a drug is lower in Spain, for example, Great Britain will import the drug from Spain. But a U.S. retailer may not purchase Canadian Prozac, even though it costs 53% less than in the USA and is manufactured at the same plant.

The pharmaceutical industry and other supporters say advertising to consumers is a First Amendment right and encourages untreated people to get help. And the FDA opposes allowing the importation of drugs by wholesalers and retailers because it says it can't assure the safety of the imported drugs.

Although these policies might make sense for other reasons, they contribute to escalating spending on prescription drugs. With physicians writing an average of 1,900 prescriptions a year, and dozens of expensive new drugs under development, some political leaders say it's time to rethink policies that give other countries a price advantage over the United States.

"Why shouldn't we get the same prices as our biggest trading partner (Canada)?" asks Vermont Gov. Howard Dean, a Democrat and a physician who favors allowing imports from Canada. "Right now, somebody's getting a free ride at our expense."

High U.S. prices are coming under increasing scrutiny because prescription drug costs are the fastest-growing segment of health care costs; since 1993, they have risen at a 12% annual rate. The burden has fallen broadly in the economy, from the 25% of the population without prescription drug coverage to private businesses, which absorb 83% of prescription costs for those with insurance. Taxpayers have been hit hard, too, by paying for the prescription drugs of 36 million poor people covered by Medicaid.

The United States actually does have a price control system similar to other nations', but it applies to only one customer: the federal government. Pharmaceutical companies are required by law to sell drugs to the government at the best wholesale price given to other large U.S. customers. Then, the four biggest federal customers -- the Veterans Administration, Defense Department, Coast Guard and the Public Health Service/Indian Health Service -- get an additional 24% discount.
This essentially gets international prices for the federal government.

But these four departments account for only 1.5% of the U.S. market. Medicaid prescriptions account for another 10% of the market and are covered by a weaker form of price control: Drug companies pay rebates to the federal and state governments of 11% to 15% of the average wholesale price.

States pay 44% of Medicaid costs, which has prompted more than a dozen state legislatures to consider legislation to control prices. Proposals include having the state governments buy Medicaid drugs from Indian tribes, which get prescription drugs at the best federal price, or pooling resources to negotiate better deals. The proposals have met stiff opposition from the pharmaceutical industry, and so far nothing has been approved.

**TEXT OF INFO BOX BEGINS HERE:**

Prescription drugs cheaper in other nations

The 10 best-selling prescription drugs in the USA cost much more than they do in four other countries surveyed by USA TODAY. Retail price of the most commonly prescribed dose of each drug, converted to U.S. dollars:

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<th>Drug</th>
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1 -- Ranked by sales during the first eight months of 1999, according to IMS Health, a consulting company.
Cutline from photo(s) printed with this story:
Traveling for medicine: Dorothy Carlson, 78, of Mesa, Ariz., headed for the first pharmacy she could find in Nogales, Mexico. Treatment she can afford: Ruthmary Jeffries, 75, of St. Albans, Vt., pays $15 a month to a Canadian pharmacy for her medication.

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