MEMO TO MEMBERS

Are prescription drugs too expensive?

When CONSUMER REPORTS asked readers that question in 1993, the answer was a resounding yes. It still is today, as you'll see in our report on page 38.

Drugs are a consumer product in a class by themselves. Pharmaceutical research and product innovation have improved health, and the length and quality of life, for many people. Affordable access to drugs is an essential part of access to health care. Yet millions of people can't afford to buy the drugs they need. They must choose between health and other necessities.

American prescription-drug prices are among the highest—if not the highest—in the world. Profits are high, too: In 1998 drug companies were the most profitable industry measured by return on equity—39.4 percent. In the 1990s their median return on equity was 2.2 times the U.S. industry average.

The marketplace for drugs is not the usual competitive marketplace. Drug companies, to a certain extent, act like monopolies: They hold exclusive patents on new products, create demand for them through aggressive marketing, and charge high prices. They also negotiate special price deals with HMOs and insurance companies. Meanwhile Americans without coverage for drug costs bear the brunt of a double dose of cost-shifting: They pay higher prices for the same products than HMOs and insurers in the U.S. do, and higher prices than better-protected consumers in other countries that have laws limiting drug costs. This is the unacceptable reality for the 43 million uninsured and the millions enrolled in Medicare without a supplemental plan for drug coverage.

Drug-company lobbyists say they need to charge high prices to pay for the development of new products. Yet as the chart at right shows, marketing and administrative expenses are often higher than research costs. European drug companies have been able to operate with good research and innovation records while charging consumers less and accepting lower profits.

In a recent report to Congress, the Access and Affordability Monitoring Project (AAMP) of the Boston University School of Public Health analyzed a large number of proposals to lower the cost of drugs to consumers while protecting adequate revenue to finance needed research. These include state remedies, such as pooling buying power to negotiate discounts with drug manufacturers; giving senior citizens access to federal-agency discount programs; expanding coverage under Medicare to include medications; and reimporting FDA-approved U.S. drugs from countries where they're cheaper.

For the AAMP report, see www.house.gov/berry/prescriptiondrugs/studies.htm.

Rhoda H. Karpatick
President

How much revenue for research?
(Unweighted average)

- Materials and production: 35.6%
- Marketing and administration: 28.9%
- Research and development: 11.2%
- Net income: 18.6%
- Taxes: 7.4%

Source: "Affordable Medications for Americans," by Alan Sager and Deborah Scudder, Access and Affordability Monitoring Project, Boston University School of Public Health. Based on the 1997 annual reports of Merck and Pfizer.