Controlling drug prices
a key to health-care
reform, SPH prof says

By David J. Craig

Buying medication at a pharmacy is something most people take for granted.

But for many Americans, prescription drugs are increasingly difficult to afford, according to Alan Sager, a professor at the School of Public Health, who recently found that wholesale prices of prescription drugs are between 25 and 68 percent more expensive in the United States than in other developed countries. Sager presented his findings before the U.S. House of Representatives Prescription Drug Task Force in July and was scheduled to testify September 29 before a joint committee of Congress about the economic feasibility of negotiating with pharmaceutical manufacturers for lower medicine prices for people who have no prescription-drug coverage.

Sager's message is that there is a simple solution to a complicated problem.

"All the government has to do is tell drug makers that we want them to keep their prices down," he says. "There's no need for people to sell their homes to buy medicine."

For the past decade, Sager, who has taught at BU since 1983, has been studying how to extend health benefits to the greatest possible number of Massachusetts residents. He and BU research analyst Deborah Socolar turned their attention to prescription drug prices in a study they completed this summer. More than one million Massachusetts residents, many of them senior citizens, have no insurance coverage for prescription drugs, Sager found. Meanwhile, U.S. drug prices are the highest in continued on page 6
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the world, he says, and the drug industry is one of the most profitable in the country, with, on average, a 39.5 percent return on equity in 1998.

Most representatives of the insurance and pharmaceutical industries argue that the country's health-care woes will be solved only by bolstering government programs such as Medicare, so that more citizens have prescription-drug coverage. But Sager insists that money already being funneled into the health-care industry should be redistributed.

In the study Sager presented to Congress and state lawmakers this summer, he reported that a bill now before the Massachusetts legislature would allocate $300,000 this year to buy medicine for those without insurance. The bill would require drug manufacturers to give discounts of up to 20 percent on almost all prescription drugs sold in Massachusetts and to offer rebates that would go to a fund to buy medication for those uninsured.

The study also found that if drug prices were lowered across the country to the level paid by Canadians, U.S. residents would save about $16.2 billion this year, or 13.5 percent, enough to provide all U.S. residents with the medications they need. At present, a quarter of the U.S. population lacks insurance coverage for prescription drugs, Sager says.

Drug makers, meanwhile, argue that such legislation will make investors leery and in turn, hamper research.

“Drug research is a very imprecise science and the cost of research fluctuates wildly and goes up constantly,” says Jeff Trewhi, spokesman for the Pharmaceutical Research and Manufacturers of America. “It takes $500 million to develop a new drug and only one in every five drugs that makes it to clinical testing, which is the last stage of the approval process, gets approved. Investors up against those kinds of odds expect a large return and if they don’t get it, they’ll go elsewhere.”

But Sager’s study found that drug makers would get 74 percent of their money back from the discounts because lower prices would increase total sales. There is no reason, Sager argues, that U.S. policy toward the drug industry should differ from that of other countries, such as Canada, which negotiate drug prices with manufacturers.

“We’re the only country whose government doesn’t protect us from drug makers,” he says. “I love the free market just as much as every other American, but with the patents and other anticompetitive practices that dominate the drug industry, any pretense of a free market is wiped out. And because the companies’ fiduciary responsibility is to their shareholders, prices continue to rise.

“What the drug industry has always said is, ‘Pay every price increase we levy, or you won’t get the best medication,’” he continues. “Meanwhile, going back 30 years, its profits are twice that of any normal industry. It’s a scare tactic.”

Sager also is frustrated by what he says are the drug industry’s attempts to confuse the public on health-care issues. A case in point is a television commercial financed mostly by drug companies that appeared last month featuring an elderly woman complaining about government Medicare regulations. Sager says that it is not the federal government, as the woman implies, but health maintenance organizations that decide which prescription drugs Medicare HMO policies cover.

And while bills in Congress and the state legislature are still in committee and unlikely to be voted on this year, Sager is optimistic that Massachusetts and other states will eventually be able to control drug prices.

“The traditional approach to handling health care is to throw money at the problem,” he says. “This year the focus seems to be on tossing more state money into the pot for the senior pharmacy program. You need to do that if people are suffering. But you can’t do that every year after year.”

State Representative Patricia Jehlen (D-Somerville), who sponsored the Massachusetts bill requiring lower drug prices, says states eventually will ensure that all citizens can afford their prescriptions by controlling the drug industry’s profits. The House Health Care Committee recently reported her bill to the Ways and Means Committee. Jehlen hopes it will inform state budget discussions and be partially integrated into other health care bills.

“I don’t think my bill will be passed this year, but its concepts are now part of the dialogue about this problem, which more and more is seen as a crisis,” she says. “Sager’s studies have changed the discussion. I think we’re going to see bills like this popping up in legislatures across the country.”

Sager adds that states are more likely than the federal government to be successful in taking on drug companies because industry lobbyists are typically less influential at the state level, and because federal legislation that addresses health-care issues, such as Bill Clinton’s sweeping health-care reform proposal in 1994, often is hampered by the different interests and needs of individual states.

“That’s why Clinton’s plan was doomed from the beginning,” Sager says. “We’ve always favored state-level regulation when Congress seems unwilling to act.”