Drug companies can cut costs
By Derrick Z. Jackson, Globe Columnist, 9/20/2000

Pharmaceutical companies say they deserve their profits, the highest of any industry in the world, because they do us the big favor of bringing new drugs to market. The Pharmaceutical Research and Manufacturers Association says it takes an average of 12 to 15 years to discover and develop a new medicine at an average cost of $500 million. The drug companies say only three out of every 10 prescription drugs earns enough return to meet or exceed research and development costs.

"The cost of medicines reflects their enormous value - to patients, to society, and to the health care system," the association says. "If we focus too much on cutting the costs of medicines, we may lose sight of their value, and we may jeopardize the value of pharmaceuticals that could be developed in the future."

Here in the hospital citadel of Boston, two researchers say we can cut the costs of the medicines without jeopardizing the research of the pharmaceuticals. Professor Alan Sager and research analyst Deborah Soclar of the Boston University School of Public Health have estimated that with vast numbers of Americans who currently lack insurance for prescription drugs, the drug companies could make about the same money if prices were cut to make drugs affordable to more people.

"The drug makers claim that any step by government to interfere with either their prices or their profits will cause destruction and devastation," Sager and Soclar say. "They are wrong. The sky will not fall."

In a report they gave last month to the Northeast Legislative Association on Prescription Drug Pricing, Sager and Soclar looked at prices in Massachusetts, Connecticut, Maine, New Hampshire, New York, Pennsylvania, Rhode Island, and Vermont. About 23 percent of the residents of those states (10 million people) have no insurance for prescription drugs. Currently, insurance companies, government programs, and individuals paying out of pocket in those eight states do $18 billion of business for brand name drugs.

If the price of all drugs were discounted by 42 percent, the same discount used by the Veterans Administration, drug spending in those eight states would be reduced to $11.5 billion. All that would do is bring the United States in line with the rest of the wealthy world. Residents of Germany, Great Britain, Canada, France, and Italy pay between 30 percent and 48 percent less for their drugs than Americans.

But while sales for those who currently can afford prescription drugs could be cut to $11.5 billion, Sager and Soclar, bolstered by Wall Street analysis, estimate that lower prices would trigger an increase in sales among people who currently cannot afford drugs. Lower prices would also make it easier for state governments to expand drug discount or free-drug programs for the working poor.

Between a rise in volume and agreements by the states to guarantee revenues in exchange for lower prices for patients the drug companies could still do $18 billion of business in these eight states. It would cost drug companies very little to produce the higher volumes because once the
machinery is set up to produce a particular drug, making extra pills or solutions is cheap. Sager and Socolar estimate that it costs only 5 cents to make an additional dollar's worth of drugs.

Thus, all Americans could fill their prescriptions, instead of having nearly one out of every four people in the Northeast needlessly gut it out through illnesses that could result in far more expensive visits to emergency rooms. The drug companies would still have plenty of money to continue their research.

Sager and Socolar argue that this would be relatively easy to do in a nation that is so rich. If it were its own nation, New York State alone would be fourth in the world in health care spending. The three states of Massachusetts, New York, and Pennsylvania spend almost as much on health care as Germany.

The issue is not money. The issue is reshuffling health care from a system in which fewer people pay high prices for prescription drugs to one in which more people pay lower prices.

"When you look at the situation, there's not a rationale we can see for higher profits," Socolar said over the telephone this week. "We spend enough on prescription drugs to be able to provide drugs for everyone. Italy's drug prices are about half of those in the United States, but no one is seriously claiming that the drug companies are suffering because of that."

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