

Legislative Briefing on Prescription Drug Reform

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I'm happy to acknowledge that the ideas presented here have been developed in collaboration with my colleague, Deborah Socolar.

Drug makers must come to their senses and come to the table.

They can't continue to rely on more money for business as usual.

Drug makers are fighting a desperate delaying action, hoping to bring in rich financial harvests for a few more years, before the storm of cost controls hits them.

Each well-dressed executive hopes that they'll hang on long enough to buy a house on Nantucket, on the cliff if possible.

They are kidding themselves.

PhRMA testified before a New Mexico legislative committee on 6 September 2000 that cutting drug makers' prices or their profits would lead them to cease

research. They imply we'd all die.¹ Give us all your money or we'll kill you seems to be their slogan. We call this "PhRMA's fog of fear."

On 20 November 2003, Milton Friedman and 165 other economists went one better. In an open letter to the U.S. Congress, they warned that even the *threat* of price controls will harm breakthrough research.² That may be. But get used to it. Price controls are really going to happen. There's no alternative.

As other developed nations have learned, some form of price or profit controls is inevitable. Because the meds are no good if people can't afford them. And because government-granted patent monopolies give drug makers such great pricing power that government must act to offset it, in order to protect citizens.

The challenge is to reconcile price controls with spurring more breakthrough research. Happily, we can. The job of winning affordable meds for all Americans while stimulating and rewarding more breakthrough research is the easiest problem we face in health care. Not easy, just easier than all the others.

We need facts, honesty, and clear-eyed analysis, not threats from PhRMA.

Here are 21 short steps forward—

1. The choice is clear: spend much more, suffer and die prematurely for lack of needed meds, or change and reform.
 - Continuing suffering—inhuman.
 - Paying more—unaffordable—as Congress will soon see when it confronts the costs of its new Medicare drug bill—one that pays the drug makers \$139 billion in windfall profits, we've calculated.
 - Reform—inevitable.
2. U.S. prescription drug spending in 2004 will total \$250 billion. That is one-half of drug makers' world-wide revenue—enough to pay for all the meds that all Americans need.

¹ Tracy Baroni, Senior Director of Policy for the Pharmaceutical Research and Manufacturers of America (PhRMA) testified that "price controls deter investors, and that wipes out funds for research and development. `The lights go out in the labs, and there is no R&D.'" See Deborah Baker, *Albuquerque Journal*, 7 September 2000.

² "Milton Friedman and Many Others on the Consequences of Price Controls," <http://www.techcentralstation.com/112003C.html>, access confirmed 19 November 2004.

3. Drug makers' U.S. revenues have doubled every five years for the past decade. This year alone, drug spending in the U.S. will be half as big as all of defense spending.
4. The incremental or marginal cost of making more pills is pennies on the dollar.
5. Two facts—already adequate U.S. spending and low marginal costs of producing more meds—make it an abomination that Americans continue to suffer and die for lack of needed pills.
6. But drug makers and their good friends among the economists will always find ways to argue that the obvious and clear solutions are wrong.
7. Some friends of drug makers will admit that high U.S. prices might harm Americans today. But these friends still assert that high prices are essential to save lives tomorrow—by financing breakthrough research.
8. They are all tragically wrong. High prices make it impossible for many Americans to afford the pills their doctors prescribe. As a result, those who insist on high prices cause premature deaths every day in this nation.
9. Because other governments have already acted to lower prices and because our federal and state governments have done very little, so far, U.S. prices are 81 percent above the average of wealthy nations in 2003, up from 60 percent higher in 2000.
10. We'd save \$60 billion this year if we paid Canadian prices. Massachusetts alone would save about \$1.6 billion. Physically importing pills from Canada or Ireland or Israel or other nations is a very useful and politically attractive short-term idea. It should be pursued. But we should recognize that it is not a long-term solution. Drug makers will work to stymie importing. We will get stuck in the mud, fighting a skirmish.
11. We need to import Canadian prices, not Canadian pills. We don't have to wash our pills in Canadian laundromats to get them clean.
12. Politicians who rely exclusively on importing will let the drug makers tie us all up in knots—court cases that go on for years—and, even if we win, we won't obtain affordable drugs for all Americans.
13. Two different problems need to be solved. The first is to get today's drugs into everyone who needs them, at an affordable cost. This is really very easy and inexpensive to do—without cutting drug makers' revenue or even their profits.

14. We need a peace treaty with the industry to address all legitimate interests of all parties. This should cut prices substantially—say to Canadian levels—replace drug makers' lost revenue with higher private and public volume, and pay for the very low actual added cost of manufacturing. Again, this can protect drug makers' revenues and profits, while getting needed drugs to all.
15. The hard job is to do this while increasing breakthrough research for the decades ahead.
16. We should begin by realizing that drug makers do far less breakthrough research than they claim—and far less than we need.
17. They garner too high a share of their profits through the 3 M's—mergers, marketing and advertising, and me-too drugs—along with higher prices on existing drugs. Some 40-50 percent of their research goes to me-too's.
18. Drug makers have become very conservative. They don't have enough new drugs in the pipeline to keep their stock prices high and growing. They are the most nervous very-well-dressed people in the United States of America. You would be also if you ran multi-dozen-billion-dollar companies and didn't have a durable business plan.
19. As one CEO said, "we know we're defying gravity."
20. So—we have to help them.
 - First, we give them a breathing space by using the peace treaty approach to protect their profits at today's levels for 5 or 10 years—if they make all of today's existing drugs available to all Americans.
 - Second, we together craft new rewards and incentives that induce drug makers to again devote themselves wholeheartedly to identifying and developing the breakthrough drugs that Americans need—and that we are already paying for.
21. But one thing is clear. We can't delay. We can't let PhRMA's fog of fear paralyze us or hold us hostage any longer. All Americans need affordable medications. We spend enough. Making more pills is astonishingly cheap. And Americans are dying needlessly every day.