Drug prices needn’t be so high

By Stephen L. Cohen

In recent weeks, the debate over prescription drug prices — normally a quiet backwater in the political arena — has taken on all of the controversy usually reserved for more heated issues such as gun control or campaign finance reform.

Alarmed by rising prices, AARP (formerly, the American Association of Retired Persons) has been fighting for months to expand Medicare coverage to include prescription drugs. At the same time, politicians with widely varying philosophies have been leaping eagerly onto the bandwagon of pharmaceutical rage.

Now the drug industry appears to be responding to the pressure, announcing last week that it is willing to work with the Clinton administration to create a new Medicare drug benefit. Until now, the industry has fought the administration on this issue; although it still is unclear how far it is willing to go in supporting a new government-sponsored health initiative.

It’s easy to get lost in all of the rhetoric, but underlying the whole controversy is a simple truth: Although the country produces many of the world’s most important medications, it does so at a prohibitive cost.

In the past decade, in fact, there has been a dramatic shift in the proportion of medical costs attributable to pharmaceutical products. For the first time, health insurers actually are paying more for drugs than they are for hospitalization.

This has led to the recent controversy over drug prices. After enduring double-digit inflation in the pharmaceutical marketplace, patients, insurers and business leaders are voicing their dissatisfaction because too many consumers cannot afford the price of medical treatment.

So how can we resolve the matter in a way that avoids minimal pain to the many interested parties? First, we need to recognize that some pain is unavoidable. When dealing with macroeconomic models (like the health sector of the economy), many Americans seem to forget that if you want to buy a costly item, you still have to find a way to pay for it. Of course, there’s always one other option: Get the seller to lower his price.

This is essentially what’s going on now in Washington, and a final solution probably will need to involve some reduction in costs. Although no one is calling for pharmaceutical price controls yet, drug companies worry that a new Medicare drug benefit eventually could lead to such controls.

The companies reason, quite appropriately, that once Medicare starts paying huge sums for prescription drugs, it probably will look for ways to reduce its costs. It then might seek volume discounts or introduce the kind of price controls that already exist in other developed nations.

Fearful of this possibility, the pharmaceutical industry argues that price controls would stifle innovation and halt the flow of powerful new drugs to the medical system. The industry points to the high cost of research as a justification for the high prices charged for prescription drugs.

But does pharmaceutical research really justify the steep prices charged for these drugs? Upon closer examination, the industry rationale rings a bit hollow.

For one thing, drug companies account for less than one-third of total pharmaceutical costs, so the companies could reduce their costs substantially in other areas — such as marketing, advertising and promotion — without touching their hallowed research budgets.

Furthermore, costly drug advertising recently has exploded onto the nation’s television screens, peddling everything from Rogaine to Viagra. While treating condition such as baldness and male impotence certainly has some value, it’s hard to argue that the huge marketing campaigns devoted to these products are critical to the nation’s health.

The pharmaceutical industry also contends that its products represent the least expensive form of therapy, but it is getting more expensive all the time. Drug prices increased by more than 10% in 1998, compared with an increase of just 2% in 1997. And managed care organizations have projected premium increases of up to 12% in 1999, mainly due to the increased cost of prescriptions.

As if this weren’t enough, recent studies even have raised questions about the inherent value of the industry’s vaunted research efforts. A study published last year in The Journal of the American Medical Association, for example, showed a possible bias in the research sponsored by pharmaceutical companies. It showed that researchers with financial ties to drug companies were far more likely than independent researchers to publish favorable results regarding a class of cardiovascular drugs. Whereas in 1994, 15% of researchers who supported the drugs were associated with the industry, only 37% of researchers with critical views had any industry affiliations.

Studies such as this have caused some scientists to question the objectivity of clinical trials sponsored by the pharmaceutical industry. The questions take on added significance at a time when the industry is using its investment in research as a rationale for charging high drug prices.

A key part of any solution, then, will have to involve a close, critical look at the industry’s pricing policies. The pharmaceutical industry long has represented one of the most profitable sectors of the economy, and this extraordinary success has rested on more than just product innovation; it also has depended on the fact that the industry can sell its wares to an essentially captive audience: the ill and the infirm.

It is time for the industry to recognize its debt to this constituency and to moderate its prices accordingly.

Beyond this, the industry could improve access to prescription drugs by solidly backing a government-run Medicare drug program. When drug companies fight for government programs, it’s hard to imagine the “free market” unconstrained by government regulation, they are missing the point since they fail to acknowledge that the pharmaceutical marketplace never has been truly free, because their customers are not free to ignore their products.

Drugs aren’t like gum or cereal or any other consumer commodity, and the indu