··· COMMENTARY ···

Robbing Tomorrow's Generations

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In the United States, the pharmaceutical market is largely free and responsive to the priority Americans place on state-of-the-art healthcare. In most European countries, however, the government controls the market for prescription medicine. As a result, what Europe may have gained in the short term, it is now losing in the long term and, in the process, short-changing European patients of quality care and robbing tomorrow's generations.

Drug prices may be lower in Europe as a result of price controls, but patients have to wait longer for new life-saving, cost-effective medicines. Moreover, curbs on pricing have little long-term effect in controlling overall healthcare spending, and they are undermining the European drug companies' ability to innovate. Price controls are also driving pharmaceutical research from Europe to the United States. The most recent example of Europe's research and development drain was the decision made by Novartis AG to shift its center for global research from Switzerland to the United States. Novartis Chief Executive Officer Daniel Vasella recognized that research investment is driven by marketplace growth and profitability.[1]

Compared with patients in other countries, American patients not only have a wider choice of therapies, but also have earlier access to new drugs. Americans also have the most vital, innovative pharmaceutical industry in the world—one that offers the best hope for patients who are waiting for new cures and treatments.

The impact of foreign price controls on what Americans pay for prescription medicines has not been quantified, as far as we know. However, it is fair to assume that Americans pay relatively more for their drugs because others are not paying their fair share for the huge cost of discovering and developing new therapies that help patients in all countries.

A study released last November by economists at the Tufts Center for the Study of Drug Development found that the average cost of developing a new drug had reached $802 million in 2000 dollars.[2] In fact, Dr. Joseph A. Dimasi, the Center's Director of Economic Analysis, expressed frustration at the difficulty of recruiting patients into clinical trials at the same time that drug development is expanding and there is increased focus on developing drugs to treat chronic and degenerative diseases. This difficulty has added significantly to clinical costs.

According to a study by the Boston Consulting Group, patients in Greece, Belgium, and France—where strong government intervention in the marketplace currently exists—must wait 5 to 6 times longer for new medicines than do patients in the United States.[3]

Besides impeding access to medicines, price controls have little effect on curbing long-term healthcare costs. During the 1980s and 1990s, countries that controlled drug prices—such as France, Spain, and Japan—did *not* have lower spending levels for prescription drugs than countries, notably the United States, that had fewer market interventions.[3]

The Boston Consulting Group found that price controls on prescription medicines may rein in costs in the short term, but they have little effect on long-term spending trends.[3] As a result, spending increases in other areas of healthcare. That's what happened when Germany introduced drug budgets for physicians in 1993. Spending on medicines decreased, but more costly hospital admissions and referrals to specialists increased by 10%.

Price controls also impede the discovery and development of innovative new medicines. In an October 2001 report, the European Federation of Pharmaceutical Industries and Associations (EFPIA) found that cost-containment policies seeking only short-term gain seriously disrupt the functioning of

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the European market and sap industry's ability to compete in the long term.[4] The report found that low prices have eroded the profitability of Europe's pharmaceutical industry by making it more difficult to finance research and development at a level sufficient to support its abilities and ambitions. The EFPIA report also found that the competitive position of Europe, as a site for innovation and investment, is rapidly declining and that a "brain-drain" is increasing as Europe's most talented scientists move to the United States.

According to European analysts, pharmaceutical markets in Europe suffer from a lack of competition. Countries that rely on administered prices do not experience significant changes in prices and market shares after patents expire.[5] Lower prices are a typical consequence of patent expiration and the entry of generic products in competitive drug markets. The inefficient position of the European pharmaceutical industry may be a function of having diminished market-based competition.[5]

The bottom line, then, is that price controls are counterproductive. While price controls may lower prescription drug costs in the short term, they have serious adverse consequences in the long term. They deprive patients of quality care, while failing to control overall healthcare spending. They stifle pharmaceutical innovation, weakening competitive market forces and the competitive strength of domestic pharmaceutical industries.

Rather than resorting to price controls, European governments would be better advised to foster competitive market forces as an effective means of controlling pharmaceutical spending. An efficient market-based system should provide patient access to vital medicines while at the same time, provide incentives for research and development. Rather than robbing tomorrow's generations for the needs of today, a free market meets the needs of both.

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