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Why drug prices are high

Some profit goes to cover losses, as Pfizer has experienced

By JAY AMBROSE
Syndicated columnist

Pfizer is rich, rich, rich. Its prescription drug prices are high, high, high. And so it is that Washington politicians – chiefly liberal Democrats – want to encircle it and other rich pharmaceutical companies with one form or another of price controls. It might not hurt if these would-be killers would read the news occasionally.

There, they would find that although Pfizer made \$8 billion in profit last year, it is in very deep, job-cutting, stock-plummeting, future-threatening trouble, the consequence mostly of a drug that is not going to succeed despite a promised investment in it of something on the order of \$800 million, according to the Economist.

The hope was that this drug, torcetrapib, would be a godsend to the 50 million Americans whose cardiovascular health could have been vastly improved by its ability to form so-called good cholesterol. In clinical trials, however, a high percentage of users died. The risks outweighed the benefits. The bet was called off.

Other drug companies run up against this same issue repeatedly – because hugely expensive research is never an absolutely sure thing, and their best-laid plans sometimes go astray. And this is why high drug prices are necessitated: If the prices aren't sufficient to cover losses during the period that patents hold, there won't be enough funds to pursue further research and development of drugs with the potential of saving not just a few lives, but millions of them. The companies could face ruin. Investors do read the news, and the story about torcetrapib caused a one-day stock drop of \$25 billion.

None of this seems to faze some members of Congress, who note the undeniable burden of high drug prices on their constituents and are forever saying we should reimpose cheap drugs from Canada or have the federal government negotiate the prices paid for drugs supplied under Medicare and Medicaid.

These are both phony remedies.

The drug companies sell drugs to Canada at low prices because Canada has price controls. If they sold all or vastly larger amounts of their drugs at those prices, they would become like price-controlled European drug companies that hardly ever innovate and therefore do next to nothing to advance health care in this world.

A likely response of the drug companies to a U.S. law allowing reimportation would be to make sure they only sell enough drugs to Canada to meet that nation's needs, and Canada would itself likely outlaw imports back to the United States.

If the federal government negotiated prices as the single biggest purchaser of drugs it would be virtually the same thing as price controls, some analysts have said. The government could likely get the prices down to so low a profit margin that, just as with price controls, the drug companies would not have the resources to pursue research that could – in fact, would – save millions from premature deaths in years to come.

There is a dual-benefit answer to high drug prices, and that is to reform the Food and Drug Administration so that it quits keeping drugs off the market for a year, two years or three years longer than needed for any kind of reasonable determination of their efficacy and safety. While the FDA does indeed uncover dangers as it goes about its legally prescribed duties, it is also risk-averse to the degree that much of its testing is redundant and pointless, an exercise in delay for delay's sake, as critics have repeatedly pointed out.

Change that, and you would not increase risks – you would save thousands upon thousands of lives by making the drugs available to people who will otherwise die while waiting for them to arrive. That is the first benefit. The second is that you could save drug companies hundreds of millions of dollars, enabling them to put their drugs on the market at lower prices while still making enough to attract capital and undertake financially risky research.

The Pfizer story is instructive on all fronts. As it should be, a drug is being kept off the market because of tests that did disclose dangers, and we learn what we have learned many times before, that drug companies need a way to make up such losses if they are going to try, try again.