

New Congress Attacks Big Pharma, America's Favorite Whipping Boy



By Alex Berezow, PhD — January 16, 2019



Credit: Storyblocks [1]

Big Pharma is tough to love.

Their list of sins is long, but their list of virtues is equally long. While it is true that some companies have engaged in questionable marketing and pricing practices, it's also true that billions (and yes, it probably is billions) of people are alive today because of the pharmaceutical industry. Vaccines, antibiotics, insulin, blood pressure meds, and other drugs have saved countless lives.

Yet, when pharmaceutical companies jack up prices, it irritates everybody. And when people are irritated, politicians take the opportunity to do some grandstanding to win votes. Just a few days into its term, the House Oversight Committee in the new Congress has already [launched an investigation into drug pricing](#) [2]. Is that justified?

Price Increases: Big Pharma vs. Higher Education

In a [press release](#) [3], the committee claims, "Approximately 94% of widely-used brand-name drugs on the market between 2005 and 2017 more than doubled in price during that time." Let's assume that's accurate. That is certainly a large increase. Between 2005 and 2017, [inflation](#) [4] was about 25%. If a drug cost \$100 in 2005, it should have cost \$125 in 2017, if drug prices only reflected inflation. Instead, a \$100 drug would have cost more than \$200.

So this proves that pharmaceutical companies are greedy, right? Not so fast. The price of higher education also roughly doubled in a similar time span. From 2000 to 2016, [average total tuition, fees, and room and board rates](#) ^[5] more than doubled from \$10,820 to \$22,432 (which is an increase of 107%). Inflation during that time was only 39%.

Should we expect Congress to demand answers from university administrators about why they are gouging the American public? If politicians were consistent, then yes. But colleges don't anger people the way that pharmaceutical companies do, so we probably will never see that investigation.

Profit Margins: Big Pharma vs. Other Industries

What about profit margins? Surely, Big Pharma is swimming in giant vaults full of gold coins like Scrooge McDuck. For certain, some pharmaceutical companies are doing very well. In 2015, the [profit margin](#) ^[6] for the largest 25 companies was 20.1%, with the profit margin for all pharma companies at 17.1%.

By comparison, [Apple's net profit margin](#) ^[7] is about 21%. You know [who else makes healthy profits](#) ^[8]? Accountants. The profit margin in that industry is over 18%. Real estate agents and lawyers pull in more than 17%. Your neighborhood dentist has a profit margin close to 15%. Yet, nobody is complaining about Big Floss.

Big Pharma Is America's Favorite Whipping Boy

None of this is to say that pharmaceutical companies act like angels. They sometimes don't. And because they sell products that are necessary to keep people alive, perhaps some sort of regulation is necessary. But before anybody accuses Big Pharma of making obscene profits, it's helpful to compare them to other companies.

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[2] <https://www.biospace.com/article/house-oversight-committee-takes-on-rising-drug-prices/>

[3] <https://oversight.house.gov/news/press-releases/oversight-committee-launches-sweeping-drug-price-investigation>

[4] <https://www.usinflationcalculator.com/>

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[6] <https://law.stanford.edu/2018/01/10/new-gao-report-on-drug-industry-profits/>

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