

Bloomberg's Drug Problem. A businessman should know better.

By ACSH Staff — November 6, 2003

New York's mayor Mike Bloomberg has joined the list of public officials seeking to import drugs from Canada where even American-made pharmaceuticals are subject to price controls in a quest to provide cheaper drugs for New Yorkers. And not just for government employees, as other civic leaders have planned, but potentially for the millions treated within the huge NYC Health and Hospitals Corporation system.

While at first glance this move might seem to make fiscal sense, in the long run it will squelch drug innovation and have devastating consequences for the future availability of life-saving and life-enhancing pharmaceuticals.

The mayor, in seeking to import these drugs, has apparently taken aim at the new, favorite punching bag of politicians seeking to curry favor with the electorate: the pharmaceutical industry. This foray is in the planning stage, for now: FDA regulations prevent Bloomberg from going ahead alone.

The high price of many drugs is a serious problem for New Yorkers, as it is for all Americans especially the elderly and others on fixed incomes. But it's beneath the mayor to beat up on the pharmaceutical companies for the price of prescriptions, and he should certainly know better than to imagine that bringing drugs back in from Canada would be a long-term solution. Yes, it's true that many drugs cost less in Canada, but it's also important to understand why.

First of all, Canada has socialized medicine, and government-imposed price controls on drug prices. But since developing, testing, making, and marketing drugs doesn't become any cheaper just because the Canadian government keeps prices artificially low, the U.S. pharmaceutical industry has forced the U.S. drug purchaser to subsidize the Canadian markets along with others so that the drug companies can continue to do business north of the border. In plain American, the U.S. consumer pays more so that Canadians pay less.

Second, our pharmaceutical industry sinks billions of dollars annually into developing innovative, beneficial drugs, which extend and enhance our lives (and the lives of Canadians, as well as millions of others around the world) in many ways. Those billions are required for research, which involves exceedingly high costs because the FDA is the most demanding regulatory body on earth. Consequently, American-made drugs are the safest and most effective on earth.

Compare the American pharmaceutical output with all the important new drugs produced by the Canadian, Swedish, and Japanese pharmaceutical industries in the past few decades. If you're having trouble remembering the names of these drugs, you are forgiven: The U.S. pharmaceutical industry produces well over half of the world's innovative drug output. Those of us of a certain age

may remember the olden days, when even Canada had a vibrant pharmaceutical research and development industry-before government price controls forced them to close their labs, or to move here.

One might reasonably ask whether it is fair that American consumers bear the burden of higher drug prices. After all, the pharmaceutical industry shares the blame, having kowtowed to foreign controls. They have been setting themselves up for this scenario for decades; all it took was budgetary red ink to get first the average consumer, and now local governments, to go where the cheapest product was.

But if New York City, as well as Illinois, Maine, and Springfield, Mass. whose political leaders have expressed intentions similar to those of Bloomberg become the leading edge of a movement among our public sector decision-makers to buy and import foreign drugs to save a few bucks, the cash flow behind the discovery and development of innovative drugs will dramatically slow. Already, stories have appeared noting the sorry state of the pharmaceutical industry's new drug pipelines and the effect they have had on bottom lines. Jobs are now being lost among drug companies, such as Merck, which had not experienced job insecurity in recent memory.

If this trend continues, the 2013 pharmacopoeia will resemble the 2003 drug list, as our waves of pharmaceutical innovation dry up. Politicians will give the public their free lunch, but at what cost? If, 20 years ago, the government had enacted proposals similar to Mayor Bloomberg's, many of us wouldn't be around today. Our children, and their children, should be allowed to reap the benefits of the amazing improvement in public health we have experienced over the past decades, and that will continue so long as there are sufficient financial resources. Need a shortsighted view of drug pricing force us into competition with our progeny in the arena of public-health policy? Should we be mortgaging the future health of our society for transient benefits?

The answer is no. Allowing drug importation would amount to nothing more than pandering to populist rabble-rousing, as politicians denounce the "obscene" profits of the pharmaceutical industry rather than offer real solutions problem of high drug prices.

One idea: The onerous FDA drug-approval process must be streamlined. The multi-million dollar, multi-year investment required to produce innovative drugs would be slashed, leading to drug prices more realistically reflecting the lower cost of producing them, benefiting everyone. Alternatively, drug companies could stop colluding with foreign governmental controls, reducing the artificial price differential generated via this shortsighted collaboration. The free market will soon solve the problem. Subsidizing starving Africans in order to allow them to access medications? Yes. But Canadians and Swedes? No.

Undercutting the American pharmaceutical industry with cheap imports will only kill our golden goose. As a businessman, Mayor Bloomberg should and I suspect does know this as well as anyone.

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