Published on *American Council on Science and Health* (https://www.acsh.org)

An Industry Veteran Argument For Fixed Drug Prices

By David Shlaes — October 1, 2015

Image not found or type unknown

There have been a number of articles in the press recently about drug patents and pricing. Much of the recent furor [1] stems from the move by Turing Pharmaceuticals CEO Martin Shkreli to increase the price of pyrimethamine (trade name Daraprim), an ancient, generic antibiotic used to treat certain rare infections, 5000%, from $13.50 to $750 per pill. Hillary Clinton and others have vowed to take action.

The public in the US firmly believes that the pharmaceutical industry is evil incarnate and that it takes advantage of its monopoly positions to gouge the public on drug pricing. Meanwhile, a recent article [2] by Austin Frakt of the Upshot blog in the New York Times states that *the patent system* discourages companies from pursuing potentially promising new therapies because of their inability to patent the inventions for one reason or another. The patents are linked to pricing in some cases (though not for Turing and pyrimethamine) since it is the patent that provides market exclusivity, and hence profit potential for the innovator.

Neither of these beliefs is correct and they display an incredible lack of understanding of the pharmaceutical industry by both politicians and the public. While the ability of a single manufacturer of an essential generic drug to blackmail public health by threatening to halt manufacturing is a clear example of gouging, it is the government itself that is to blame for allowing this potential to exist at all. Generic drugs that are deemed as essential for public health, like penicillin and, in this case, pyrimethamine, should never be allowed to rest in the hands of just one single manufacturer. The government should provide for subsidies to establish competing manufacturing facilities to prevent this sort of blackmail.

The other major cause of high prices is, in fact, medical need. It is clear that the cost of the new Gilead antiviral drugs to treat Hepatitis C is justified [3] based on the cost savings to society for curing this terrible infection that causes liver failure, liver transplantation and death when untreated. Even in this case, though, we can probably bring the price down somewhat.

As it stands now, about 50% or so of pharmaceutical industry profits come from a single country the United States of America. Why? Because we are one of the only countries in the developed world that does not have a national drug price negotiation strategy. Is that good for the pharmaceutical business? Certainly. Do we pay a higher price for drugs than everyone else in the world? Do we in fact subsidize pharmaceutical innovation for the rest of the world? Of course!

What would happen to drug prices in the U.S. if Medicare, Medicaid and the Veterans Administration plus all other federally funded health care facilities could negotiate a single price for

every drug they buy? We all know the answer, they would come down. Of course, the industry cries "foul!" and "That would be socialist" at the concept, but it's what almost every other country does and they pay lower prices than we do. Will this decrease investment in innovation? Possibly - but as an industry veteran I'm not convinced (if other countries now riding on our coat tails no longer get that free ride they will do more discovery) and I'm willing to do the experiment.

The patent system has *nothing* to do with preventing new, effective drugs from coming to market. That this might be so is an assumption that previously patented drugs could perhaps serve some new but not patentable purpose. That is a big assumption that is not based on scientific fact. In actuality, many of today's antiviral drugs were patented back in the 1960s, yet they have been patented for new uses within the past decade.

The patent system has *everything* to do with providing a reward for innovation and the investment required to bring the innovation to market. In the Upshot article I mentioned, development costs ranging from $140 million to over $2 billion are quoted. The lower figures come from costs of actual clinical development of a single molecule. But consider this: A minimum of 95 percent of everything begun in a pharmaceutical or academic laboratory will never even make it to clinical trials. Of the 5% that make it into tests in people, 80% will fail. So for every drug that actually makes it to market, the rule of thumb is that 4,999 have failed.

Someone somehow has to pay those sunk costs and that s where the $2 billion (and rising) figure comes from.

Cap costs for drugs? It's worth discussing but it should not be political theater based on one example. To make informed decisions, people need to understand what is involved or, at the very least, shut up.
