

Attacking drug makers is no cure

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Perception and reality are often at odds in policy discussions - and a big gap can be costly. Witness the current debate over intellectual property protection of pharmaceuticals. Misperceptions about the availability and pricing of pharmaceuticals are clouding policy discussions of both healthcare reform in the US and ways to improve public health in the world's poorest countries.

By almost any measure, the US pharmaceutical industry is outperforming the global competition. In 1998-2002, US-based companies accounted for the invention of more new molecules than all Europe-based companies. Yet there is a feeling of crisis in the air. Some members of Congress favors radical measures that would undercut US pharmaceutical companies' incentive to discover new drugs by importing the same price controls that have weakened the European pharmaceutical industry. At the same time, some non-governmental organizations blame the big pharmaceutical companies for the world's health problems. Some are even calling for an end to patents and the adoption of radical "open source" rules to govern medical research.

Much has been written about the success of US companies. Because they are able to price their drugs in the US at whatever the market will bear, they can earn enough profit to justify the exploration cost associated with new discoveries. Why the sense of crisis?

First, there is a perception that healthcare costs are rocketing in the US, and that drug companies are to blame. Second, there is a perception that health crises in developing countries are primarily due to high drug prices. Both perceptions are wrong. We must dispense with them now if we are to address the underlying problems.

First, US healthcare costs: according to data from the official Centers for Medicaid and Medicare Services, drugs accounted for just one-sixth of the increase in overall healthcare expenditures between 2001 and 2002. Most of the overall increase in costs is attributable to other factors - in particular, tax and regulatory policies that limit the effective working of health insurance and healthcare markets.

Even these numbers significantly overstate the impact of drugs on healthcare spending. New drugs tend to have the highest prices and it is important to remember that spending on other forms of healthcare drops when new cures are discovered. Indeed, drug development - which depends significantly on the cash flows generated in the US - may be the best hope for benefits reform.

A drug to cure cancer would lower health expenditures far more than any policy change. New drugs also often significantly improve quality of life in ways that do not show up in measures of gross domestic product. For example, Zofran, the anti-nausea medication, dramatically reduces the adverse side-effects of chemotherapy. The fact that US patients are spending large amounts on the patented drug is hardly a sign of crisis.

The story in the developing world is more distressingly misleading. It is true that there is much more that we can do to enable consumers in the poorest economies to purchase medicines. A recent article in the distinguished journal *Health Affairs* found that one-third of people in developing countries have no access whatsoever to essential medicines. And delivering them could save up to 10m lives each year. But, while the World Health Organization has identified 319 products as essential medicines, the study found that only 19 were under patent. Of those 19, two patents were not effective, as the inventor had donated the rights to the WHO for the public good. Most of the rest related to Aids. Aggressive campaigns are generally under way to increase their availability - just last month the Bush administration announced further steps to speed this process. The *Health Affairs* study goes on to note that it is the lowest-income countries where access to essential medicines is most adversely affected. That is, poverty matters.

It is easy to blame the bad health of the world's poor on patents, but the truth is a more complicated story - and an opportunity. If citizens of the developed world were to spend more helping poor nations to acquire drugs that were no longer patented, then substantial gains could be made. A big - and achievable - aim is to focus on poverty reduction. The Millennium Challenge Account proposed by George W. Bush is an important step in this direction that would bolster prospects for underlying economic growth. A political assault on drug companies is neither to the point nor helpful.

At home, it is just as easy to blame high healthcare costs on pharmaceutical companies, allowing politicians to ignore the more pressing need to improve markets for healthcare. Disposing of the notion that drug companies are guilty is the first step to accomplishing meaningful reform.

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