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Outta Control

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Editor's note: This article is the third in a series.

The world is in the midst of a "third revolution" in pharmaceutical drugs that is both saving lives and improving their quality.

Today, incurable Hodgkin's lymphoma has become so curable thanks to drugs that enable better radiation and other treatments that some oncologists don't know whether to consider it a cancer anymore. Testicular cancer, once a death sentence, now has a 98 percent cure rate. Pediatric tumors in children that used to have a 30 percent five-year survival rate now have an 80 percent survival rate. Since the first protease inhibitor for HIV-patients was approved in 1996 the mortality for HIV/AIDS in the United States has dropped by 75 percent.

More than 400 new drugs came onto the market in the 1990s. More than half were developed in the United States. They often provide treatment where none was available before. There are pills to treat Alzheimer's Disease and high cholesterol; clot busting drugs that make strokes less debilitating; non-addictive remedies for depression and anxiety; biologics that halt rheumatoid arthritis; less toxic time-release treatments for Hepatitis, and let's not even mention male impotence. The list goes on and on.

And the coming years promise more of the same. More than 400 new medicines are in development to fight cancer, 120 for heart disease and stroke, 80 for HIV/AIDS, and 170 neurological diseases.

It is little wonder that senior citizens without prescription drug coverage are clamoring for and are likely to get that benefit added to Medicare in one form or another this year.

But the question of form in how it is added is vitally important, not only for making the drugs affordable to senior citizens and the government but to ensure that incentives for production of new miracle drugs for America and the world isn't impeded.

And some politicians are threatening to restrict the profits that spur life saving innovation in order to save people -- and, maybe more important, the government -- money.

"Lifesaving prescription drugs save no lives if you cannot afford to purchase them," intones Sen. Byron L. Dorgan, D-N.D. He is among the key proponents of a measure that would promote the re-importation of drugs sold to Canadian wholesalers where, for a variety of political and economic reasons, the prices of some well-known drugs are substantially lower than in the United States.

In essence, what Dorgan and other politicians are proposing is to import Canada's system of price controls -- through re-importation at the federal level or by states copying Canada's provincial system of formularies that restrict patients' choices of new medicines.

On the surface, it would seem these politicians are trying to do consumers and taxpayers a favor. After all, spending on drugs is rising at double-digit rates, and if a Medicare drug benefit is to be affordable some means of controlling that spending seems necessary.

Dig deeper, though, and the whole basis for such measures crumble. Indeed, the likely result of instituting such a scheme of price controls will be fewer life-saving and enhancing drugs and higher hospital costs.

Canada's system of controls is based on a premise that many Americans likely wouldn't buy -- that prescription drugs aren't medically necessary. Canada's National Health Act, which provides universal care, does not require prescription drug coverage under its medicare system. Instead, Canada's provinces provide coverage for low-income elderly Canadians and about 60 percent of the rest of Canadians receive drug coverage through

third-party insurance.

What Canada does do -- that the United States up to now has not -- is tightly regulate the prices at which pharmaceutical companies can sell to distributors.

The result is that, indeed, yes, the prices for some high profile drugs are lower in Canada than in the United States. But why is this so? Government controls provide only part of the reason.

Another part is that the general price level in Canada is lower, and prices for most products tend to be lower as a result. Another is that lawyers in Canada can't sue away drug companies' riches as in the United States. But there is an economic reason that benefits Canadians as well.

Because they are such a small market, Canadians get a free ride on the U.S. system. Only because Americans pick up the full cost for drug development -- which averages around $897 million for each new product and costs $32 billion to the industry each year -- can Canadians get bargain rates for meeting the cost of manufacturing. If Americans didn't, then Canadians wouldn't be able to. Prices there would soar; prices here would not go down -- unless other price control measures were instituted.

This fact is demonstrated by the fact that when drug prices are looked at as a whole -- with generic drugs included in the package -- Canadians in fact spend *more* on drugs than do Americans. In 2001, 12 percent of Canadian health care spending went for prescription drugs, compared with 10 percent in the United States. A study by a Canadian consulting firm found that 21 of 27 top-selling generic drugs cost more in Canada. The reason: Canadian government prices end up setting something of a floor on drug prices as well as a ceiling. For Americans, the bottom line is that half would likely pay more for drugs if the United States imports the Canadian controls.

Also imported would most likely be the waits for new drugs. The median time for drug approvals in Canada is nearly half a year longer than in the United States. Under formulary rules, a new drug place in a category cannot increase the cost of drug treatment for a disease -- *even if it reduces the other medical costs associated with the treatment.* More effective drugs thus can be kept off the market or made more costly to buy for Canadians for years.

Canadians in some places still can't get the most effective time-release form of the anti-depressant Paxil. Diabetes patients can't get Glucophage. Hepatitis sufferers can't get the least toxic treatment of Interferon unless they can break into a trial. Those with aggressive rheumatoid arthritis couldn't get Enbrel, a drug that halts progression of the disease and forestalls the need for joint replacements, until three years after its availability in the United States.

Do American politicians really want to put people through so much physical pain for no real savings gain? It is a false economy, when what health care needs are real economic remedies.

Sally C. Pipes, a Canadian, is president & CEO of the California-based Pacific Research Institute. NEXT: What to do about health care's costs.

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