

Drug prices & research

By FRANCINE BREWER

The pharmaceutical industry claims that high drug prices in the US are necessary to pay for the research and development (R&D) of new and often life-saving medicines. If American consumers paid the same low prices charged in Canada and Europe, where drug costs are regulated, the industry could not afford to pay for new discoveries – or so says PhRMA, the Pharmaceutical Research and Manufacturers of America.

Asking a few basic questions can help us evaluate PhRMA's claim.

HOW MUCH DOES A NEW DRUG COST?

PhRMA contends that it costs about \$800 million to produce a new drug. That number comes from the Tufts Center for the Study of Drug Development – which is mainly funded by the drug industry. But this estimate is highly inflated.

The Tufts Center itself says that the actual cash outlay for R&D of a new drug is about \$400 million. But it says it must double that amount to account for the “opportunity cost of capital” – that is, the amount that could have been gained by spending nothing on research and putting the \$400 million into the stock market or other investments instead.

But \$400 million is still too high because it is a pre-tax figure. Since a large share of drug companies' research expenses are tax-deductible, the actual cost to industry is about \$240 million. This figure, however, only applies to a subgroup of drugs that are the most costly to develop.

The Tufts Center looked only at “self-originated new chemical enti-

It's the marketing, not the research costs

ties,” or NCEs – drugs that contain a new active ingredient. Of new drugs approved by the FDA from 1989 through 2000, only 35% were NCEs. The other 65% were based on active ingredients that were already on the market, and these “me-too” drugs are far cheaper to develop.

What's more, not all NCEs are “self-originated,” meaning that they were developed entirely by a drug company's own research staff. Many, if not most, important new drugs are developed with the help of public money. A National Institutes of Health study of the five best-selling drugs in 1995 found that most of the research to discover them was conducted with government funds. But none of the drugs in the Tufts Center study received any government support.

According to Public Citizen, a more accurate estimate of the R&D costs for the average drug would be \$110 million. While this is admittedly a lot of money, it is nowhere near the \$800 million

per new drug that PhRMA claims.

HOW MUCH MONEY DO DRUG COMPANIES SPEND ON R&D FOR TRULY NEW MEDICATIONS?

Drug sales in the US generated about \$210 billion in 2004. Pharmaceutical companies spent about \$30



billion or 14% of that money on R&D. About half of that R&D money is spent on “me-too” or “copy-cat” drugs. In order to get a share of the sales of big-selling medications, other pharmaceutical companies invest in research to produce their own similar drug. Developing “me-too” drugs is less risky, because the market for them is known, and the research involves fewer dead ends.

For example, the lucrative market for cholesterol-lowering drugs has spurred many companies to develop their own version. As a result, there are now six major

drugs prescribed to lower cholesterol: Lipitor, Zocor, Pravachol, Crestor, Lescol and Mevacor (now a generic).

Pharmaceutical companies even imitate themselves with “me-too” drugs, in order to maintain the higher profits that come with patent protection. When a drug's patent is about to expire, the company that produced it will often develop a modified version – one that is just different enough to secure a patent.

Prilosec, a heartburn medication that was one of the best-selling drugs in the world, lost its patent protection in 2002. To replace it, AstraZenica developed Nexium, relentlessly marketed as “the purple pill.” Research costs for such “me-too” drugs are lower, and the profits can be high. Nexium came on the market with a price almost six times as high as the now-generic Prilosec.

The truth is that only about 7% of the money generated by US drug sales goes toward creating new, truly innovative drugs.

HOW MUCH DO DRUG COMPANIES SPEND ON MARKETING DRUGS?

The largest single item in the budgets of US pharmaceutical companies is the cost of marketing their drugs. The average amount spent is 31% of annual revenues, or about \$65 billion. “Marketing” includes the growing amount spent on direct-to-consumer advertising.

It includes free samples and sales pitches to doctors in their offices, carried out by an army of sales reps. (In 2001 there

was about one drug sales rep for every eight physicians in the US.) Marketing includes advertising in medical journals and “educational” meetings for physicians.

This last point needs some elaboration. “Education for doctors” sounds like a public service – but when it's part of drug company marketing, its purpose is not to serve the public but to serve the bottom line.

Doctors are required to participate in continuing medical education to maintain their licenses. Pharmaceutical companies pay for 60-70% of the various educational programs offered to doctors, which are held at hospitals, resorts, etc. Drug manufacturers often contract with private, for-profit companies to plan the courses, select the speakers and organize the meeting. A number of companies in the medical education business are owned by advertising agencies. It is thus no surprise that many “medical education” sessions effectively promote the drugs produced by the companies that pay the bills.

Comparing the \$15 billion that the pharmaceutical industry spends on R&D for innovative drugs with the \$65 billion they spend on marketing gives us some perspective on the industry's claim that high drug prices are required to fund research.

Another bit of perspective is provided by the scale of drug industry profits. According to *Fortune* magazine, the pharmaceutical industry has had the highest profit rate of any industry in the US in every year since 1982. As a percentage of sales, drug company profits have been three times as high as the average for other industries in the Fortune 500 over that time.

If PhRMA were to say that the drug industry needs high prices in order to pay for expensive marketing, which is needed to maintain its huge profits, the public would be outraged. This illustrates why public education is so important to the cause of health care reform: the more Americans know the facts, the more we can make regulation of drug costs – and Canada-style prices – a real political possibility.

Francine Brewer is chair of the PSC Health Care Reform Committee and a member of the Retirees Chapter Executive Committee. She can be reached at frangail@earthlink.net. Much of the information in this article is from *The Truth About the Drug Companies* by Dr. Marcia Angell, former editor of the *New England Journal of Medicine*.

CALENDAR

NOVEMBER 3 – JANUARY 30 / Activism and Repression: The Struggle for Free Speech at CCNY, 1931-42. Exhibit of photographs, graphics, cartoons and posters of student and faculty activism in the Great Depression, and the ensuing repression that led to dismissal of more than 50 staff and faculty. At Baruch College Library, 24th Street and Lexington Ave. Contact Carol Smith, carolsmith63@msn.com.

MONDAY, JANUARY 9: 12:30 pm / Retirees Luncheon, featuring Joshua B. Freeman, on the current state of the labor movement. At the Graduate Center, rooms 9404-9405. Registration required, contact Linda Slifkin, 212-354-1252 or lslifkin@psccmail.org.

MONDAY, JANUARY 9: 6:00 pm / HEO-CLT Professional Development Fund Committee meeting. Committee meets to review applications for professional development grants. Applications will be reviewed on the first Monday of each month through June. Contact Linda Slifkin, 212-354-1252 or lslifkin@psccmail.org.

SATURDAY, JANUARY 21: 1:00 pm / Labor Goes to the Movies – La Commune is about the 1871 socialist uprising of the Parisian population against a centralized and militaristic government, in a “breaking news” presentation. The featured speaker is Joan Scott of Princeton University. At 99 Hudson Street, 6th Floor. No RSVPs. Contact Dania Rajendra, drajendra@psccmail.org.



SATURDAY, JANUARY 28: 9:30 pm / International Committee meeting. Contact Renate Bridenthal for information and location, RBriden1@juno.com.

Credit union to move – but not far

The PSC/CUNY Federal Credit Union will be closed Friday, January 13 to move to its new location – on a different floor of the same building. The Credit Union will remain closed on Monday, January 16 in observance of Martin Luther King Day; it will reopen Tuesday, January 17, on the third floor of 25 West 43rd Street, in Room 311.

Credit Union members should note that telephone and online banking may be unavailable during the move. See www.psccunycfu.org for further details.



On December 8, the Hunter PSC chapter held a “Poetry Jam” featuring members' own poetry, prose and performance. Above is Larry Shore, professor of Film and Media Studies, showing a little-known talent.