COMMENTARY | Look to socialized medicine

WHY U.S. DRUGS COST MORE

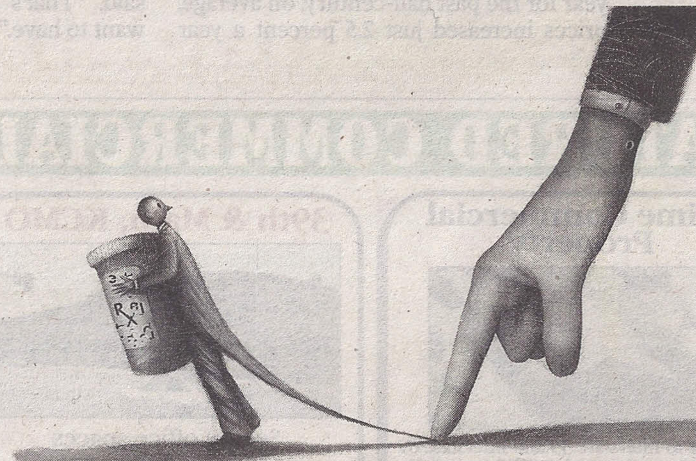
By CALLOM B. JONES V
Guest columnist

While there are many factors causing the paralyzing increase in the cost of health care in the United States, one of the most politically charged is the cost of medicine.

Pharmaceutical companies, especially Big Pharma, are regularly vilified by the media and politicians for the "outrageous" prices they charge for their drugs at the patient level.

The problem isn't the pharmaceutical firms. The problem is the system.

For perspective, let's discuss some basic economics. Are drug manufacturers not entitled to a fair (market or arms-length) profit? If you don't believe a company or industry is entitled to that, then you don't want that company or industry to survive.



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When drug firms make no money, they:

- Cut research and development expenses, effectively eliminating the creation of the new formulas we count on to solve medical problems.
- Eventually go out of business, ceasing the manufacture of the approved drugs they were manufacturing, drying up that supply.

Why do drugs cost more in the U.S. than in other countries? Because those countries have

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socialized medicine systems that "negotiate" (read dictate) what pharmaceutical firms can charge for their drugs in that country. If the companies don't take the price offered, the countries won't buy the drugs — regardless of what that means to their citizen-patients. It's no accident people of means come to the U.S. for medical attention from all over the world when their socialized medical systems fail them.

If foreign governments act anything like ours does, they immorally require sellers to disclose their costs when negotiating price contracts. The foreign governments will then "graciously" allow the drug manufacturer to make an insufficient return, one that barely allows the drugs sold there to make a marginal contribution to the firm.

Marginal contribution is not profit, but, generally, the drug firm will be better off selling the drugs and realizing a marginal contribution than not, provided they can make their profits elsewhere.

This means that the pharmaceutical firms' entire worldwide profit must be made in the U.S. The freer U.S. markets allow drug manufacturers to sell their drugs at a high enough price to realize a real profit, stay in business and keep researching new and better drugs. In effect, the U.S. pharmaceutical consumers are subsidizing the socialized medical systems of the world.

What happens if we adopt the same tactics the rest of the world uses? The end of a free capitalist system that creates newer and better drugs every year. A major consolidation of the pharmaceutical industry, including many firms going out of business.

Protectionist policies are almost never appropriate, but the answer to this problem lies in one. This is not a case of foreign competition being able to make the same product cheaper or better. It is a matter of markets so broken by foreign socialized medicine systems that our pharmaceutical companies deserve protection.

The problem can be solved two ways:

- The U.S. government charges an "excise tax" on exported pharmaceutical shipments equal in percent to the profits made on the sale of such drugs in the U.S. — and returns the "tax" to the manufacturers.
- A law making it illegal for pharmaceutical manufacturers to sell drugs to foreign countries at less-than-U.S. prices. Foreign governments then get to decide whether their citizens are worth paying the true price of the drugs they need.

Either of these proposals would properly shift needed pharmaceutical profits to the world markets where they belong, and dramatically reduce the cost of drugs in this country to U.S. patients.