Understanding Today's Rx Drug Debate & the Crisis of Affordable Medicine

The History of Today's Prescription Drug Industry:

The current incarnation of American pharmaceutical manufacturing is a new phenomenon. Historically, new medicines have been developed by government-funded scientists working at large research universities and institutions. In 1968, the National Institutes of Health (NIH) expanded the ability of universities and other non-profits to patent and claim a monopoly over the drugs created through NIH-funded research. The ability to privately patent drugs created via public funding was expanded to private contractors in the early 1980s and the restrictions on private drug manufacturers were lessened further under Presidents Reagan, Bush, Sr. and Clinton. The modern version of the drug industry became a full reality in the mid-1990s, which is when prices started to climb.

Rx Companies Take Money from Taxpayers, then Make Money from Patients:

Since the 1990s, the drug manufacturing industry has become incredibly profitable. In the first three months of 2018, the world's seven largest drug manufacturers made over $12 billion in profits, a 29% increase over the first quarter of 2017. For comparison, the drug manufacturing industry is more profitable than car makers, big oil, and insurance companies. There are **three main reasons** that drug makers are able to make so much money:

- U.S. tax dollars subsidize a significant portion of the research, development, and marketing of new drugs. New drugs are often researched and developed at government agencies or public universities, licensed for distribution to for-profit companies that then receive tax credits for marketing the drugs on television. The drug companies are then allowed to keep most of the net income that they make from selling the drugs in the U.S. and global markets.
- U.S. drug companies are allowed to set their own prices and exercise monopoly power using patents that give them exclusive rights to market drugs for up to 20 years. That means they can charge what they want unlike in other countries where governments impose price controls and negotiate with the industry to limit costs. Medicare, one of the nation's largest purchasers of drugs, for instance, is legally prohibited from negotiating with drug companies for lower costs.
- Drug prices are significantly higher in the United States than in other comparable countries, even for the same drug, allowing drug companies to reap enormous profits from the U.S. market. Americans pay between two and six times more for drugs than people in other countries. An AARP study found that in 2017 the prices of 267 brand name drugs increased, on average, four times more than the cost of inflation. Those increases are not just for specialty drugs: Medicare's price of two insulin glargine drugs used to treat diabetes, for example, increased by more than 17.5% per year from 2012 to 2017.

Not only do drug companies make massive profits by leveraging taxpayer money to pay for research and development and then gouging patients on the price of those medications they can now also keep a bigger share of their profits because of President Trump's new tax law. Under the new tax law, the five largest prescription drug companies got over $6 billion in tax breaks in 2018 on domestic profits. The ten largest drug companies got an over $70 billion tax break on their offshore profits even as patients continued to see skyrocketing prices.

Drug Industry Power: Political Contributions, Lobbying, and D.C.'s Revolving Door:

Prescription drug companies have mastered using political contributions and lobbying to protect and expand profits. In 2018, drug companies spent over $27 million on contributions to Congressional candidates, which was about evenly split between Republicans and Democrats. Of the current members of Congress, 373 members of the House and 97 members of the Senate received some form of contribution from the drug industry in 2018.

In addition to significant campaign spending, drug manufacturers spend more to lobby Congress than any other industry. In 2018, the pharmaceutical industry spent more than $280 million on lobbying, roughly $100 million more than the next closest trade group, the health insurance lobby. That spending included $28 million from the drug makers' trade group, PhRMA, as well as the individual amounts spent by its member companies, including Pfizer ($11.3 million), Johnson & Johnson ($6.6 million) and AbbVie ($6.1 million).

Drug makers have also benefited considerably from the political revolving door on Capitol Hill. The current President of PhRMA, Steve Ubl, used to work for Sen. Chuck Grassley (the current Chair of the Senate Finance Committee, which oversees Medicare and Medicaid). Former employees of pharmaceutical companies and their allies also hold key positions in the Trump administration, including the Secretary of Health and Human Services (HHS), the former head of drug pricing at HHS, the Director of Health Programs for the Office of Management and Budget, the head of the Food and Drug Administration and a seat on the Council of Economic Advisors.

Drug Industry Fears: Price Regulations, Public Outrage and Progressive Democrats:

For several years, the high cost of prescription drugs has been one of the top concerns of American voters and PhRMA knows it. Between 2013 and 2017, the number of companies lobbying on "drug pricing" increased from 37 to 153. Rhetorically, the drug makers and their allies have been using the same excuse for high drug prices from before the 2016 election to now: the system is to blame.

The drug industry has waged a multi-million dollar campaign arguing that drug companies have been forced to increase prices due to the pharmacy benefit managers (PBMs), "middlemen" that negotiate rebates from the companies in exchange for access to health insurance plans. That creates a system, according to a pharmaceutical executive at a recent Senate hearing, "where the poorest and the sickest are subsidizing others."

While President Trump vocally denounced the industry's practices both before and after his inauguration, his administration has done little to actually address rising prices of prescription drugs. Trump's proposed changes have focused mainly on cosmetic and marginal improvements that increase transparency and help seniors in Medicare defray some costs, but ultimately don't address the problem of rising prices and "won't bring down the gross costs of prescription drugs." His proposals to eliminate rebates and cut out Pharmacy Benefit Managers (PBM's) have actually earned praise from PhRMA since they fundamentally do nothing to limit the industry's power to set their own prices, to force increased competition with lower cost alternatives or to stop the flow of taxpayer money to subsidize their profits.

As the new Congress took office, the industry was more worried about its ability to work with the House of Representatives. Largely they were worried because of the growing number of progressive Democrats who openly reject corporate donations and politicians from both parties who condemn the drug industry's abusive practices. Democrats have already started to roll out bills to address rising prescription drugs--including Rep. Doggett's bill to require direct negotiations in Medicare. Recent bipartisan hearings have increased attention to the issue, but so far there is no consensus on solutions.

Meanwhile, the scale of the affordable medicines crisis continues to impact people with all kinds of coverage--Medicare, Medicaid, private insurance--and those with no coverage. Two-thirds of Americans use prescription drugs and usage increases with age. A recent Consumer Reports study showed that the number of prescriptions increased by 85% between 1997 and 2016. CMS (Centers for Medicare and Medicaid Services) predicts that retail drug spending will make up an increasing share of healthcare costs, growing faster than any other sector of spending in healthcare. Prescription drug costs also drive premium increases for the 56% of Americans covered by private insurance. In 2016, an estimated $480 billion was spent on pharmaceutical drugs in the U.S.

FREQUENTLY ASKED QUESTIONS (FAQs)

How much can government negotiations drive down the cost of prescription drugs for patients?

In other countries where the government negotiates directly for prescription drugs, costs are significantly lower for the same drugs than in the United States--some drugs are half the price or less. The U.S. health programs that already negotiate with the prescription drug industry also have lower costs: Rx medicine in Veterans' Administration costs one-third less than retail; and in Medicaid, drugs are priced at least 23% lower than retail cost or at the lowest cost at which its sold to other buyers.

Will more generic drugs drive down the overall cost of prescriptions?

While the Trump administration has trumpeted their efforts to quicken the approval of generics as a way to drive down the cost of prescription drugs as a whole, the reality is that more generics alone won't solve the crisis. Generics already comprise more than 80% of the drugs sold in the United States but because the price of generics can increase multiple times before a generic enters the market, prices are still high. Moreover, research shows it takes more than one generic competitor to drive down costs significantly and that takes time. Almost half of the generic drugs approved by the Trump administration are not yet on the market.

What is "pay for delay" and how does it increase prescription drug costs?

Pay for delay is a common practice in which prescription drug companies pay their competitors to delay putting a generic version of a branded drug on the market so the companies can extend their monopoly and continue to charge what they want for a sought after drug. The Federal Trade Commission estimates this tactic costs consumers $3.5 billion a year in higher costs.

How big a factor are prescription drugs in the overall increase in health care costs?

Health care costs are going up in the United States for a variety of reasons, but one of them is certainly the increase in the price of prescription drugs. Multiple studies have identified increased prescription drug spending as a key driver of health costs across the board for people with private insurance, Medicaid, Medicare or uninsured people. For example, higher spending on prescription drugs was responsible for $44 billion of the $64 billion increase in the cost of treating diabetes in the U.S. from 1996 to 2013.

Are drug companies correct that the cost of research and innovation is the reason for high drug prices?

Drug companies often claim that high drug prices are necessary to support research and development of new lifesaving medicines, but that is simply not true. Most research and innovation is publicly financed with tax dollars, not private resources. An independent study found that every single one of the 210 drugs approved by the FDA between 2010 and 2016 benefited either directly or indirectly from the National Institutes of Health (NIH) funding. In fact, research and development costs are only about 17% of drug company expenditures and almost all of the big pharmaceutical companies spend significantly more money on sales and marketing than research and development.