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OPINION COMMENTARY Follow

Be Thankful for High Drug Prices

If Americans weren't overcharged, we wouldn't have innovative treatments.

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Feb. 4, 2024 4:16 pm ET

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Who wants to pay for expensive drugs? No one, including Joe Biden, Donald Trump, Ron DeSantis and Bernie Sanders, wants Americans to pay for costly drugs. Mr. Trump has advocated policies to lower drug prices. Gov. DeSantis wants Floridians to be able to buy drugs from Canada. Sen. Sanders wants to subpoena the CEOs of drugmakers that have challenged the Inflation Reduction Act's price "negotiations." President Biden signed the act.

Who wants drugs that will save lives? Everyone we know.

For Americans, paying for the discovery and development of new drugs rests on our shoulders. If we pay, we get new lifesaving medicines. If we don't, we don't.

Almost all new drugs are developed for the U.S. market, no matter where the company's headquarters are. Why? America is a large, rich country with an advanced medical system. America's gross domestic product per capita is 65% higher than Britain's, 57% higher than Germany's and 87% higher than France's. There are four Americans for every German and nine Americans for every Canadian. We have many wealthy people. The Food and Drug Administration, which moves slowly, is still often faster at approving new drugs than regulatory bodies in other countries. While far from a free market, our medical system is freer than in many other nations. Countries with single-payer systems often take one to two years to negotiate the price of a new drug. If a patent is granted for 20 years but the first 13 years are dedicated to development and approval, then only seven years of patent-protected sales remain. If two years are added to that timeline for reimbursement negotiations, the interval drops to five years.

If new drugs can make it in America, they are developed. If they can't, they aren't. Other countries are considered secondarily. They are the cherry on top; we're the sundae.

While only 4% of the world's population, the U.S. often accounts for half or more of worldwide revenue for a new drug. The cancer-fighting drug Keytruda was Merck's top-selling product in 2022, generating sales revenue of approximately $20.9 billion. Around 60% of Keytruda sales were in the U.S. In the U.S., we pay for drug research and development while other countries free-ride on our investments.

Why do other advanced countries get their drugs more cheaply? They have monopsonistic government agencies that negotiate drug prices with the attitude that if they can't get it cheaply, their citizens will do without.

Pharmaceutical companies go along with this because drugs have high upfront costs and relatively low incremental costs. After those upfront costs are paid by someone, drug companies decide that the extra revenue, perhaps from Canada, covers incremental costs and is better than nothing. Drug companies would prefer that everyone pay the high price, but they have little control over the situation. If the price is too low in Canada, the company won't launch there. Sometimes, a drug company must accept Canada's low price or grant a compulsory license to a producer of a generic version, even though the patent is still in force.

Americans should be free to purchase drugs from any willing pharmacist, even those in Canada. But don't expect that to move the needle. Canada's government is likely to restrict exports so that American buyers don't scarf up all the drugs. In 2020 Canadian Minister of Health Patricia Hajdu ordered companies not to export any drugs if those sales would create or worsen shortages in Canada.

Capitalized drug development and approval costs have increased at 7.5% a year in real terms since the mid-1970s, when the cost to develop a new drug and secure FDA approval was estimated at $179 million. It has now certainly surpassed $6 billion. Most drugs are less expensive to develop, but the $6 billion figure accounts for the "dry holes" (about 82% of drugs that pass preclinical testing still fail in clinical trials) and the time value of the money spent many years ago. This amount doesn't account for post-approval clinical trials that the FDA often requires.

Longevity is highly correlated with drug R&D. Columbia University economist Frank Lichtenberg has found that modern drugs were associated with 73% of the increase in life expectancy that we've enjoyed in the last few decades.

Some people claim that the American medical system isn't very good because American life expectancy isn't top tier. But as we know, Americans aren't always models of health, moderation and safety.

No one in this country is happy that Americans pay for drug R&D while the rest of the world free-rides off our investment. But we don't run the world. If we try to free-ride too, there won't be a ride. When we look at our situation as it is, not how we wish it were, we can see what a good investment drug R&D is and how

cheap-drug schemes such as importing drugs from Canada and "negotiating" Medicare drug prices generally won't work. If they do, we'll wish they hadn't.

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