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Crony Capitalism Out of Control

by RALPH NADER

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Two recent news items about the voracious drug industry should call for a supine Congress to arouse itself and initiate investigations about the pay-or-die drug prices that are far too common.

The first item—a page one story in the *New York Times*—was about the Cystic Fibrosis (CF) Foundation, which fifteen years ago invested $150 million in the biotechnology company Vertex Pharmaceuticals to develop a drug for this serious lung disease.

On November 19, the Foundation reported a return of $3.3 *billion* from that investment. Kalydeco, the drug developed with that investment, is taken daily by CF patients (who can afford it) and is priced at $300,000 a year per patient. Who can pay that price?

The second news release came from the drug industry funded Tufts Center for the Study of Drug Development. The Center's Joseph DiMasi asserts that the cost of developing a new prescription medicine is about $2.558 billion, significantly higher than the previous estimate of $802 million that the Center claimed in 2003.

The drug industry promoters use this ludicrous figure to justify sky-high drug prices for consumers. Unfortunately, the criticism of this inflated number does not receive adequate media attention.

Half of the DiMasi assertion is opportunity costs foregone if the drug company invested its money elsewhere. That cuts his estimate by almost half to $1.395 billion. This maneuver gives "inflation" a new meaning. According to economist James P. Love, founder of Knowledge Ecology International, DiMasi also conveniently ignores government subsidies such as so-called orphan drug tax credits, research grants from the National Institutes of Health and government support of the cost of clinical trials that qualify (see keionline.org).

Mr. Love adds that the drug companies spend "much more on marketing than they do on research and development."

Rohit Malpani, Director of Policy and Analysis of Doctors Without Borders (which received the Nobel Prize in 1999), says that if you believe Tufts' figures, whose alleged data analysis is largely secret, "you probably also believe the Earth is flat."

Mr. Malpani cites GlaxoSmithKline's CEO Andrew Witty himself who says that the figure of a billion dollars to develop a drug is a myth.

Malpani adds that "we know from past studies and the experience of non-profit drug developers that a new drug can be developed for just a fraction of the cost the Tufts report suggests. The cost of developing products is variable, but experience shows that new drugs can be developed for as little as $50 million, or up to $186 million if you take failure into account…not only do taxpayers pay for a very large percentage of industry R&D, but are in fact paying twice because they then get hit with high prices for the drugs themselves."

Mr. Malpani was referring primarily to the U.S., where the drug companies show no gratitude for generous tax credits and taxpayer funded R&D (that they get mostly free.) Add the absence of price controls and you the consumer/patient pay the highest drug prices in the world.

Another largely ignored aspect of the industry's R&D is how much of it is directed to products that match, rather than improve, health outcomes—so-called "me too" drugs that are profitable, but don't benefit patients' health.

Also, the consistently profitable drug industry has been continually unable to restrain its deceptive promotion of drugs and inadequate disclosure of side-effects. About 100,000 Americans die every year from adverse effects of pharmaceuticals. Tens of billions of consumer dollars are wasted on drugs that have side effects instead of drugs for the same ailments with lesser side-effects (see citizen.org/hrg).

During a visit in 2000 with military physicians and scientists at the Walter Reed Army Hospital, I asked how much they spent on R&D to develop their antimalarial drugs and other medicine. The answer: five to ten million dollars per drug, which included clinical testing plus the salaries of the researchers.

This "drug development entity" inside the Department of Defense arose because drug companies refused to invest in vaccine or therapeutic drugs for malaria—then the second leading cause for hospitalizing U.S. soldiers in Vietnam (the first being battlefield injuries). So the military brass decided to fill this void in-house, and with considerable success.

The problem with the stinginess of the coddled private pharmaceutical industry regarding vaccine development continues. Drug resistant tuberculosis and other infectious diseases rampant in developing countries continue to take millions of lives each year. The Ebola epidemic is a current lethal illustration of such neglect.

The survival of many millions of people is too important to be left to the drug companies. For a fraction of what the federal government is wasting on spreading and failing lawless wars abroad, it can expand from the Walter Reed Army Hospital example to become a humanitarian superpower that produces life-saving vaccines and medicines as if the plight of sick people mattered more than windfall profits for Big Pharma.