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**POLITICAL CAPITAL**


By ALAN MURRAY

## Drug-Importation Vote Is Cue For Industry to Change Its Ways

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WASHINGTON -- Pharmaceuticals companies may succeed in stopping or watering down the drug-importation bill that passed the House last week. But they can't escape the consequences of that stunning 243-186 vote.

House Republicans have always been the industry's strongest and surest bastion of support -- a relationship fertilized with countless dollars of campaign cash. But in the early hours of Friday morning, 87 Republicans jumped ship, defying an all-out industry lobbying campaign.

The message should be clear: The industry needs to change its ways. If it doesn't, it is likely to face ruinous price controls.

It's ironic that an industry that does so much good has developed a public image that is so unrelentingly bad. Prescription drugs save lives. They control our allergies, lower our cholesterol and counter our depressions -- as well as fatten our 401(k)s. It's hard to think of any other industry that does nearly as much to improve the quality of American life.

Yet in the political debate, the drug companies occupy a spot once reserved for tobacco purveyors. Members of both parties talked openly Friday about how satisfying it was to defeat them. "The House was in its finest moment last night," said an exhausted but ebullient Rep. Jo Ann Emerson, the Missouri Republican who forced her own party's leadership to allow the vote.

The size of that victory was partly a backlash against the industry's heavy-handed lobbying tactics. The most outrageous example was the use of the Rev. Lou Sheldon's Traditional Values Coalition -- derisively referred to by some on Capitol Hill as "Rent-a-God" -- to spread the argument that the bill would encourage importation of the RU 486 abortion pill. Materials distributed by the coalition, it turns out, actually were written by staffers at the Pharmaceutical Research and Manufacturers of America, the industry lobbying group. A PhRMA spokesman refused to comment on whether the lobby made a financial contribution to Rev. Sheldon's coalition in return.

This is standard practice for PhRMA. In recent elections, it has used euphemistically named organizations like "Citizens for Better Medicare" and "United Seniors" to launder its message. Little wonder people ask: What are these guys trying to hide?

But the problem isn't just a bankrupt public-relations and lobbying strategy. It is also a pricing strategy that's no longer supportable. How do you explain to an American breast-cancer patient, Ms. Emerson asked, that a drug that costs \$360 at the pharmacy on Capitol Hill costs only \$60 in

Munich, Germany?

The industry's answer is that Germany has price controls, while Americans are charged a "market price." But truth is, there is no "market price" for prescription drugs. Like many products in the modern economy, breakthrough prescription drugs cost a lot to develop but very little to manufacture. True market competition -- and true market prices -- would destroy the industry by driving down prices and eliminating any incentive for costly research and development. So companies charge as much as the market will bear while their patent monopoly lasts -- and a market fueled by sick, often desperate consumers will bear a lot.

Price controls overseas -- backed by an implicit threat that the countries won't honor American patents if they don't get good prices -- force the drug companies to recoup most of their research costs here in the U.S. And even here, prices vary enormously. Large employers and health-maintenance organizations bargain down prices for their beneficiaries, leaving senior citizens who shop at the drugstore to pay twice as much.

In short, elderly Americans are the suckers in a game of shifting costs. And Friday's House vote is a clear sign that they aren't going to take it anymore.

The pharmaceuticals industry has belatedly joined the effort to get seniors a prescription-drug benefit through Medicare, in hopes of easing their concerns about drug prices. But that won't end the industry's problems. For one thing, the benefit now being considered in Congress is a modest one, still leaving enrollees to pay most of the cost of their drugs. For another, taxpayers are no more willing to play patsy in this game than the seniors are. In spite of anti-price-control language that drug companies are having their friends in Congress jam into the Medicare bill, price controls could well result.

So what should the industry do? Well, first, it needs to rethink its business model. That's hard to contemplate at a time when it enjoys huge profits, but it's essential for long-term survival. Price discrimination for prescription drugs may be a good idea, particularly if it benefits the neediest. But giving affluent Canadians and Europeans a better deal than Americans, whose tax dollars defray the costs of drug development here in the U.S., no longer will cut it.

Second, the industry needs to stop hiding behind cheap front groups and start telling its story straight. Americans have a vital interest in supporting a vibrant prescription-drug industry. And if the drug companies treat them fairly and honestly, they will.

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