Summary points

Prices of patented drugs are substantially higher in the US than in other affluent countries

Published reports indicate that pharmaceutical companies in affluent countries recover research and development costs from domestic sales with substantial profits

Discovery of innovative new drugs in Europe is proportionately equal to that in the US

US pharmaceutical companies invest just 1.3% of net sales in basic research

The idea that the US is subsidising other rich countries contradicts basic economics and the global nature of pharmaceutical markets

the US) pays \$2 a pill and each buys a million pills, then this accounting method would assign half as much of the fixed cost to Group A as to Group B. If, however, the fixed costs are only \$300 000 (a tenth of the total revenue) for the two million pills, the fixed costs could be allocated by volume rather than by price (\$150 000 for each group) and conclude that Group A more than pays the fixed costs and Group B pays much more than it has to. In short, the free riding argument economically is the artefact of an accounting convention and can be eliminated by Group B cutting its prices in half, rather than forcing Group A to double its prices.

Conclusions

The pharmaceutical industry has provided invaluable medicines to cure and relieve millions of patients throughout the world. As an industry, it drives economic growth and employs thousands of skilled people. But it also uses false economics and makes up stories to justify higher prices. Higher prices strain budgets, causing millions of US patients not to take the drugs their doctors think necessary. The pharmaceutical industry and the US government want to blame other developed countries for these higher prices rather than make drugs more affordable.

Contributors and sources: This article is based on all the major documents we could locate, a careful search of the websites of the European Federation of Pharmaceutical Industry Associations and Pharmaceutical Research and Manufacturers of America, and a Medline search. DWL is a professor of comparative health care policy, a contributor to the WHO Observatory volume on European pharmaceutical policy, and a member of the taskforce for the Gates Foundation on how best to make vaccines for global diseases economically viable. JL has been conducting research into pharmaceutical policy for over 20 years and has acted as a consultant to various national governments and the WHO on pharmaceutical matters. DWL had the idea for the article, wrote the first draft, and is the guarantor. JL did the analyses, edited the draft, and made empirical contributions.

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Endpiece

Tea drinking and nervous ailments

The dreadful cohort of constitutional derangements, which . . . pass under the general denomination of nervous ailments, has been increased by the custom of tea drinking . . . Among the poor of the metropolis, we are sorry to see the custom so generally prevail, of taking tea at almost all times of the day; since the temporary stimulus that it gives, is followed by that sort of relaxation of nerve and depression of spirit, which introduces the consumer of it to resort to a still more reprehensible and baneful custom, viz, that of taking ardent and raw spirits; a practice, respecting the mischief of which there can be no more room for doubt.

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