# KG Nocember 18’ AFF

**We affirm- Resolved: The United States federal government should impose price controls on the pharmaceutical industry.**

## Our Sole Contention is Giving Power to The People

**Chen of The Nation observes that runaway drug prices will cost Americans 328 billion dollars straight from consumers’ pockets this year, while drug makers enjoy record profits. Chen continues that as individual patients struggle with medical bankruptcy, or are forced to choose between rent and their next insulin shot, the drug cost crisis feeds into wider societal ills.**

**Chen**, Michelle. “Why Are Canada's Prescription Drugs So Much Cheaper Than Ours?” **The Nation**, 18 May **2017**, www.thenation.com/article/why-are-canadas-prescription-drugs-so-much-cheaper-than-ours/.

But the public is frustrated enough with “free market” drug pricing to finally seek government intervention. **Runaway drug prices will cost Americans** about **$328 billion this year**, about $50 billion **straight from consumers’ pockets, while drug makers enjoy record profits. As individual patients struggle with medical bankruptcy or get forced to choose between rent and their next insulin shot, the drug cost crisis also feeds into wider societal ills, including the epidemic of medical bankruptcy and even opioid abuse.**

**Thus, there is a crisis in the status quo. Hirschler of Scientific American explains that Americans pay 3 times more for drugs than its foreign counterparts, with drug prices in America rising every year.**

**Hirschler** , Ben. “How the U.S. Pays 3 Times More for Drugs.” **Scientific American**, **2017**, [www.scientificamerican.com/article/how-the-u-s-pays-3-times-more-for-drugs/](http://www.scientificamerican.com/article/how-the-u-s-pays-3-times-more-for-drugs/)

**U.S. prices for the world's 20 top-selling medicines are, on average, three times higher than in Britain,** according to an analysis carried out for Reuters. The finding underscores a transatlantic gulf between the price of treatments for a range of diseases and follows demands for lower drug costs in America from industry critics such as Democratic presidential candidate Hillary Clinton.

https://www.huffingtonpost.com/bernie-sanders/high-drug-prices-are-kill\_b\_8059526.html

That should not be happening in the United States of America — but it is. And it’s not likely to end anytime soon, unless we do something. Medicare is predicting that **drug costs will continue to rise by nearly 10 percent per year for the next 10 years.** Tens of thousands of Americans now spend more than $100,000 a year on prescription medication. One drug costs $1,000 per pill.

**Even the once cheaper medicines, such as vitamins and tablets, are projected to become more expensive. Gillian of ABC News reports that the prices of generic medication is rising 448 percent per year.**

Mohney, **Gillian**. “Generic Drug Price Sticker Shock Prompts Probe by Congress.” **ABC News**, ABC News Network, 21 Nov. **2014**, [abcnews.go.com/Health/generic-drug-prices-skyrocketing-lawmakers-warn/story?id=27060992](http://abcnews.go.com/Health/generic-drug-prices-skyrocketing-lawmakers-warn/story?id=27060992)

The hearing of the Senate subcommittee on primary health and aging on Thursday was called after Vermont Sen. Bernie Sanders and Maryland Rep. Elijah Cummings announced they were investigating why some generic drug prices have risen hundreds to thousands of percent -- putting a severe strain on the pocketbooks of many people who rely on generics to reduce costs compared to brand-name drugs. To combat the rising prices, Sanders said he was introducing a bill that would require generic drug makers to pay a rebate to Medicaid if the cost increases faster than inflation. **The prices of more than 1,200 generic medications increased an average of 448 percent** between July 2013 and July 2014, Sanders said during the hearing, citing federal records.

**The story behind high prices is fairly predictable: large corporations steal the power from the people. Fox of The Harvard Business Review writes that the current pharmaceutical market has essentially no competition, along with high prices, and devastating drug quality issues. Fox continues that the current problems with the drug industry stem primarily from the heavily monopolized market.**

Erin Fox, 4-6-2017, Harvard Business Review, "How Pharma Companies Game the System to Keep Drugs Expensive", (), accessed 10-28-2018, https://hbr.org/2017/04/how-pharma-companies-game-the-system-to-keep-drugs-expensive //LZ

But once the patent and the exclusive hold on the market expires, the legislation encouraged competition to benefit consumers. Any drug company would be able to manufacture non-brand name versions of the very same drug, so-called “generics.” And for a while, the system worked well. Not anymore. **The system intended to reward drug companies for their innovations, but eventually protect consumers, is systematically being broken. Drug companies are thwarting competition through a number of tactics, and the result is high prices, little to no competition, and drug quality problems**

**The problem is only going to get worse. Johnson of The Washington Post writes that the new administration has not and will not make any moves against pharmaceutical companies.**

Carolyn **Johnson**., 11-24-2017, Washington Post, "Analysis", (), accessed 10-28-**2018**, <https://www.washingtonpost.com/news/wonk/wp/2017/11/24/the-trump-administration-is-taking-on-drug-prices-but-not-drug-companies>

“This is another demonstration that despite rhetoric, **action in DC continues to favor the drug industry**,” Gal wrote in a note to investors. **The Trump administration's connections to the pharmaceutical industry have triggered scrutiny.** Trump's nominee to head Health and Human Services, [Alex Azar](https://www.washingtonpost.com/news/wonk/wp/2017/11/13/trumps-pick-to-lower-drug-prices-is-a-former-pharma-executive-who-raised-them/), is a former pharmaceutical executive. Another former industry insider, Scott Gottlieb, heads the Food and Drug Administration.

**In fact, Konca of the International Journal of Business writes that the pharmaceutical industry becomes more monopolized every day, with only 10 companies controlling half the industry.**

**The pharmaceutical and biotechnology industry has become more concentrated day by day.** For example; while the share of **10 biggest companies in the word carrying on business in the pharmaceutical sector in the middle of 1980s was 20%, this ratio has reached to 50% in the beginning of 2000s.** The company mergers may be shown as the most significant reason of this situation (Danzon et al., 2007). The value of company mergers and acquisition within the relevant dates exceeded 5000 billion dollars (Danzon et al., 2007). The merger, acquisition or co-marketing agreements concluded between the pharmaceutical companies occur as a result of capacities of the relevant companies in terms of completing each others.

**However, imposing price controls on the pharmaceutical industry would solve the current problems in two ways.**

**The first is by emboldening competition.**

**The Open Market Institute explains that because the United States abandoned its policies over the pharmaceutical industry, it cannot foster healthy competition, leading to increased prices and decreased innovation.**

https://openmarketsinstitute.org/explainer/high-drug-prices-and-monopoly/

This was largely the result of government policies that allowed for a comparatively open and efficient pharmaceutical market. These policies enforced standards for safety and effectiveness, provided funding for basic research, and critically, limited patent monopolies and mergers between drug-makers. **But the U.S. has since largely abandoned the policies it previously used to foster healthy competition. The result is a highly dysfunctional pharmaceutical market that produces high prices and less and less innovation.**

**Dalen of the University of Oslo continues that with price controls, monopolies are no longer able to randomly spike prices, leaving smaller businesses with more room to compete and less barriers to entry. Thus, Dalen, writes that implementing price controls significantly increases market competitiveness and would reduce the monopoly share by 72 percent.**

https://www.jstor.org/stable/20445536?seq=1#page\_scan\_tab\_contents

Using the estimated demand functions, we calculate the value of the Lerner index for each producer. . Table 4 presents the results from the estimation of the Lerner index AR(1) model. **These estimates imply that in the long run the Lerner index approaches: 0.1812 0.2866, 1-0.3720 = which means average market power approaches a level around 28 above the perfect competitive case. This long run outcome is far below, around 72, the initial monopoly case**. Of course, this only demonstrates how important the different parameters are, given the observed data. Without the policy reform something else might have happened in the market, but clearly our results indicate that the index price policy had a significant impact on competition is this market. The retail **price cap**, the “index price,” on a drug (chemical substance) was set equal to the average of the three lowest producer prices on that drug, plus a fixed wholesale and retail margin. This is supposed to **lower barriers of entry for generic drugs and to reduce market power**. Using monthly data over the period 1998–2004 for the six drugs (chemical entities) subjected to the index price regulation we estimate a structural model enabling us to examine the impact of the reform on both demand and market power. **Our results suggest that the index price helped to increase the market shares of generic drugs and succeeded in reducing overall market power.**

**The second is by stopping mergers and acquisitions.**

**Boseley of The Guardian writes that large pharmaceutical companies have increasingly gained new drugs by merging and acquiring smaller biotech firms with promising compounds on their books.**

**Boseley**, Sarah. “Big Pharma's Worst Nightmare | Sarah Boseley.” **The Guardian**, Guardian News and Media, 26 Jan. **2016**, [www.theguardian.com/society/2016/jan/26/big-pharmas-worst-nightmare](http://www.theguardian.com/society/2016/jan/26/big-pharmas-worst-nightmare).

**Big Pharma has its own teams of lab researchers, but over the years the biggest drug companies have increasingly gained new drugs by buying smaller biotech firms with promising compounds on their books**. Campaigners argue that the actual R&D carried out by the big profit-making companies – and the cost – is much less than they claim. A Senate finance committee carried out an 18-month investigation into the cost of the new Gilead hepatitis C drug, Sovaldi. In December 2015, it found that the price, set at $1,000 a pill, did not reflect the actual cost of R&D. Gilead stood to recoup far more than the $11bn it had paid to acquire the small biotech company,

**Angell of the Washington Post explains that like big fish swallowing little fish, larger companies swallow smaller companies and resell their drugs at higher unaffordable prices. This is done as in order for one company to have a dominate enough share of the market, they need to merge with or acquire their competitors.**

**Angell**, Marcia. “Why Do Drug Companies Charge so Much? Because They Can.” **The Washington Post**, WP Company, 25 Sept. **2015**, www.washingtonpost.com/opinions/why-do-drug-companies-charge-so-much-because-they-can/2015/09/25/967d3df4-6266-11e5-b38e-06883aacba64\_story.html?utm\_term=.b9feb362d268

But in fact, Daraprim illustrates the way most drugs are priced: They are invented not by the companies that sell them now but by someone else. Then, **like big fish swallowing little fish, larger companies either buy small firms outright or license promising drugs from them.** Very often, the original discovery occurs in a university lab with public funding from the National Institutes of Health (NIH), then licensed to a start-up company partly owned by the university and then to a large company.

**This is increasing now. Vitez of Nature News quantifies that there has been a 90 percent increase in mergers as compared to 5 years ago.**

**Vitez**, Laura J. “Trends in Pharmaceutical Mergers and Acquisitions.” **Nature News**, Nature Publishing Group, 8 Dec. **2016**, biopharmadealmakers.nature.com/users/9880-biopharma-dealmakers/posts/13880-trends-in-pharmaceutical-mergers-and-acquisitions.

2015 was another big year for mergers and acquisitions (M&A) in the pharmaceutical industry. **There were 468 announced deals involving therapeutic drug assets, devices, diagnostics and insurance companies, according to data from Thomson Reuters, representing a 10% increase over 2014 and a 90% increase over 2012**, when dealmaking hit a 10-year low (Fig. 1). This extends a trend of an increasing number of deals, beginning in 2013 after a sustained decrease during the economic downturn around 2008.

**However, these mergers are extremely expensive. For example, during the 2008 financial crisis, mergers and acquisitions were at an all-time low. On the other hand, when the economy began to rebound, mergers began to rise.**

**Vitez**, Laura J. “Trends in Pharmaceutical Mergers and Acquisitions.” **Nature News**, Nature Publishing Group, 8 Dec. **2016**, biopharmadealmakers.nature.com/users/9880-biopharma-dealmakers/posts/13880-trends-in-pharmaceutical-mergers-and-acquisitions.

2015 was another big year for mergers and acquisitions (M&A) in the pharmaceutical industry. There were 468 announced deals involving therapeutic drug assets, devices, diagnostics and insurance companies, according to data from Thomson Reuters, representing a 10% increase over 2014 and a 90% increase over 2012, when dealmaking hit a 10-year low (Fig. 1). **This extends a trend of an increasing number of deals, beginning in 2013 after a sustained decrease during the economic downturn around 2008.**

**Thus, price controls would stop mergers and acquisitions by decreasing revenue. Because price controls decrease the costs of how much products are sold for, Goldman of Health Affairs predict that American price controls would cause pharmaceutical revenues to fall by 20 percent.**

[Health Affairs 28, no. 1 (2009): w125–w137 (published online 16 December **2008**; 10.1377/hlthaff.28.1.w125)] by Neeraj Sood, Han de Vries, Italo Gutierrez, Darius N. Lakdawalla, and Dana P. **Goldman**

In this paper we analyzed trends in pharmaceutical regulation and their impact on revenues. Several important patterns emerge from our analysis. First, we found that a majority of regulations greatly reduce pharmaceutical revenues, with **direct price controls having the biggest impact on revenues**. Second, we found that most countries that adopted new regulations already had some regulations in place for controlling costs. We found that such incremental regulation has a smaller impact on further controlling revenues. However, the results also suggest that introducing new regulations such as price controls in a largely unregulated market, such as the United States, could greatly reduce pharmaceutical revenues. For example**, if the United States implemented price controls and negotiations similar to those found in other developed countries, then U.S. revenues would fall by as much as 20.3 percent**. Finally, the results also show that the impact of regulations on revenues increases over time. Whether governments should regulate pharmaceutical markets is a contentious and much-debated policy question. Our results show that introducing price controls and other regulations in largely unregulated markets will greatly reduce costs today

**Overall, Investopedia finds that the loss of revenue is a main reason why mergers and acquisitions fail.**

Staff, Investopedia. “Mergers and Acquisitions - M&A.” **Investopedia**, Investopedia, 23 Oct. **2018**, www.investopedia.many com/terms/m/mergersandacquisitions.asp.

More insight into the failure of mergers is found in a highly acclaimed study from McKinsey, a global consultancy. The study concludes that companies often focus too intently on cutting costs following mergers, while revenues, and ultimately, profits, suffer. Merging companies can focus on integration and cost-cutting so much that they neglect day-to-day business, thereby prompting nervous customers to flee. **This loss of revenue momentum is one reason so many mergers fail** to create value for shareholders.

**The impact to stopping the power of monopolies is increasing affordability.**

**Price controls reduce prices. Prada of The National Institute of Health finds that direct price controls reduce costs by 43%.**

**These limits have worked empirically. Osborn of The Commonwealth Fund reports that the only developed countries where patients were not likely to report cost barriers to prescription drugs were countries that have instituted price controls.**

**Osborn**, Robert. “In New Survey of 11 Countries, U.S. Adults Still Struggle with Access to and Affordability of Health Care | **Commonwealth Fund**.” Commonwealth Fund, www.commonwealthfund.org/publications/journal-article/2016/nov/new-survey-11-countries-us-adults-still-struggle-access-and?redirect\_source=%2Fpublications%2Fin-the-literature%2F2016%2Fnov%2F2016-international-health-policy-survey-of-adults.

Adults in the **U.S. are more likely than those in the 10 other countries to go without needed health care because of costs.** One-third (33%) of U.S. adults went without recommended care, did not see a doctor when sick, or failed to fill a prescription because of costs. This percentage is down from the 2013 survey (37%). **As few as 7 percent of respondents in the U.K. and Germany and 8 percent in the Netherlands and Sweden experienced these affordability problems.**

**This is key, as high prices are taking their toll. Conolly of HB Research finds that half of all patients do not take their medications as prescribed and more than 20 percent of new prescriptions go unfilled due to unaffordable medications.**

**Connolly**, Ceci. “Skyrocketing Prescription Drug Crisis: Action Needed.” Healthcare Financial Management, **Healthcare Financial Management**, 1 Aug. **2017**, www.highbeam.com/doc/1G1-502119025.html

The U.S. healthcare system faces growing cost pressures due to the unrelenting increase in prescription drug prices. Over the past 20 years, *the cost of medications has more than doubled, from 7 percent to about 17 percent of all healthcare spending.3***Soaring drug prices are both a major contributor to overall healthcare costs and an impediment to providers and health plans looking to appropriately manage total cost of care.** If the trend continues, projections show that this problem will get worse. Patients, health plans, government programs, and other payers spent more than $300 billion on prescription drugs in 4015, and spending is expected to climb to $400 billion in aoso, accordingto IMS Health. **The trend is having a direct impact on patients. Studies show that half of all patients do not take their medications as prescribed and more than 20 percent of new prescriptions go unfilled-and the main reason is cost**. We must address rising drug prices to ensure the healthcare system is sustainable and affordable and works for patients and health plans alike.

**Brody of The New York Times writes that that this lack of adherence to medication causes 125 thousand deaths and 10 percent of hospitalizations a year.**

**Brody**, Jane E. “The Cost of Not Taking Your Medicine.” The New York Times, The New York Times, 17 Apr. **2017**, [www.nytimes.com/2017/04/17/well/the-cost-of-not-taking-your-medicine.html](http://www.nytimes.com/2017/04/17/well/the-cost-of-not-taking-your-medicine.html)

**This lack of adherence,** the Annals authors wrote, is estimated to **cause approximately 125,000 deaths and at least 10 percent of hospitalizations**, and to cost the American health care system between $100 billion and $289 billion a year.