White House Study Says Drug Prices Suppressed Overseas

By Greg Ip

WASHINGTON—Foreign governments are taking unfair advantage of American drug company research and U.S. consumers by artificially suppressing drug prices abroad, a new study from the White House said.

The findings suggest drug pricing could become another source of friction between the U.S. and trading partners.

"Stringent government underpricing in foreign countries has substantially increased foreign free-riding on the United States," said the report from the White House Council of Economic Advisers, which was released Thursday. "The result is a slower pace of overall innovation, less competition from new entrants, and thus higher prices paid for patented drugs that lack therapeutic competition."

The study compared the prices of 200 top-selling branded drugs in the U.S. and 15 other developed countries. It concluded that European prices on top-selling drugs are about 32% of U.S. prices and that the difference has widened: They were 51% of U.S. equivalent prices in 2003.

The difference between U.S. and foreign drug prices has been widely noted and often cited by advocates of Washington doing more to reduce prices. The White House paper, however, argued pricing is amiss abroad, not in the U.S.

In other advanced economies, according to the study, the government acts as the sole purchaser of medicine, thereby exercising monopsony power—the ability to pay below the competitive market price because sellers can't go elsewhere.

If foreign governments don't intervene, that doesn't necessarily mean prices abroad would match those in the U.S., the study said.

Countries with lower incomes or with less health spending would presumably pay less for drugs, according to the study. Canada's prices are 35% and its per capita income 78% of the U.S. level, the study found.

If Canada's prices were 78% of U.S. prices, "total revenues for innovative drugs in Canada would have been $27.2 billion instead of the actual $12.2 billion," the study said. Applying that methodology to all the countries examined, the Council of Economic Advisers estimates global drug-company revenue would have been $194 billion, or 42%, higher in 2017.

Although foreign drug manufacturers also suffer from underpricing, the cost is borne disproportionately by the U.S. because it funds roughly half of all global medical research, invests 75% of global medical venture capital and accounts for 70% of patented pharmaceutical profits, the study said.

Some outside experts challenged the assumptions underlying the study. Patricia Danzon, a professor of health-care management at the University of Pennsylvania's Wharton School, attributed the price difference to manufacturers' ability to raise prices in the U.S., not governments' ability to keep them down abroad.

She said because insurers or taxpayers cover most of the cost of a drug in the U.S., consumer demand is price-insensitive, "so prices just go up without limit."

Medicare, she noted, is prohibited from negotiating prices. Pharmacy-benefit managers and private plans can negotiate when there are similar competing drugs, she said. But they have limited negotiating power for specialty drugs. Foreign governments study a new drug's benefit and negotiate prices "that reflect that differential benefit," she said.