

Opening Statement
Chairman Dan Burton
Subcommittee on Human Rights and Wellness
Committee on Government Reform
Title: "The Economics of the Pharmaceutical Industry in the U.S."
Date: June 25, 2003

Today's hearing is the third in an ongoing series of hearings being held by the Subcommittee to examine the problem of the high prices charged for prescription drugs here in the United States.

In the United States we pay a higher price on average for prescription drugs than citizens of any other country in the world. And the prices continue to go up and up.

Drug costs have been the fastest growing component of healthcare expenditures for the past several years, climbing more than 17 percent annually from 1998 to 2001.

This double-digit rate of growth is twice the rate of growth for healthcare costs in general, and approximately 5 times the growth rate of inflation.

Thanks to this astronomical growth in prices, we now have a situation in this country where more than 1 in 5 American adults are unable to take their drugs as prescribed because they simply cannot afford to buy them.

This figure climbs as high as 40 percent for some groups, including many retired, disabled, minority, and low-income Americans.

With an aging population and 108 Million Americans already managing one chronic health condition – such as heart disease, diabetes, asthma, or high blood pressure – dependence on prescription drugs will continue to rise dramatically.

Unless the high price for prescription drugs is brought down to a more manageable level, we face the very real possibility that more and more Americans will be forced to choose between purchasing their food and buying their prescription drugs. To me, that is completely unacceptable.

In a previous hearing on this subject held in April, the Subcommittee heard extensive testimony regarding the increasing number of Americans turning to Canada for their prescription drug needs.

Why? Because in many cases, the price charged for a prescription drug in Canada can be half or a quarter of the price charged for that exact same drug that is sold here in the United States.

Just a few examples: 1) Zocor, a commonly prescribed drug to fight high-cholesterol, costs \$106.84 here in the U.S., but only \$43.97 in Canada; 2) Prilosec, a widely

prescribed drug to fight acid-reflux disease and ulcers, costs \$105.50 in the United States, and just \$53.51 in Canada.

Procardia XL, used to treat heart disease, costs \$110.90 here whereas in Canada you can buy it for \$72.82. Now a savings of \$38 dollars a month might not seem like a lot to many people, but it can mean a world of difference to a senior citizen living on a fixed income and constantly worrying about how to pay their next utility bill.

The savings for Americans buying from Canada can be substantial, ranging from 20 to 80 percent, and the U.S. Food and Drug Administration estimates that nearly 1 Million American consumers already purchase between \$500 Million and \$1 Billion dollars worth of prescription drugs from Canadian pharmacies annually.

In 2000, Congress overwhelmingly passed – and the President signed into law – legislation that permits U.S. consumers, pharmacists and wholesalers to purchase FDA-approved prescription drugs on the international market, including those from Canada. However, the provisions of the law have never been implemented due to foot-dragging, stonewalling, and plain obstructionism from the Secretary of Health and Human Services and the Commissioner of the FDA.

Nevertheless, the number of Americans buying their prescription drugs from Canada and other countries around the world is sure to increase unless the cost of prescription drugs in the United States comes down.

As we in the House of Representatives prepare to take up legislation adding a prescription drug benefit to the Medicare program, I would say to my colleagues that we face an unprecedented budget disaster if we do not include some mechanism to restrain the high price of prescription drugs in that program.

The Congressional Budget Office estimated about two years ago that American seniors will spend \$1.8 Trillion over the next ten years on prescription drugs. In the two years since that study was done, prescription drug prices have gone up about 15 to 17 percent annually. So, if CBO were to repeat that study today I am sure the figure would be well over \$2 Trillion dollars.

Just yesterday, the *Wall Street Journal* published an Op-Ed authored by two researchers with Texas A&M University. The researchers, Mr. Rettenmaier and Mr. Savings, calculated that at just the present 12 percent annual growth rate of Medicare, the new prescription drug program under discussion in the House of Representatives would add \$7.5 Trillion dollars in unfounded liability to the Medicare program for all years beyond 2013. That estimate is probably a bit conservative given that drug prices have been increasing on average 15 to 17 percent annually.

Nevertheless, even if we spend only the budgeted amount of \$400 Billion dollars between 2003 and 2013, we still need to find a minimum of \$7.5 Trillion dollars to keep just the

prescription drug component of Medicare functioning in perpetuity. That figure represents almost twice the current debt held by the public.

Researchers at the American Enterprise Institute scored the Senate prescription drug bill at \$12 Trillion in unfounded liability over perpetuity.

Again, the Congressional Budget Office's own estimate is that seniors will need close to \$2 Trillion dollars in prescription drugs over the next ten years, not simply \$400 Billion. That is a \$2 Trillion dollar expense that the already financially shaky Medicare program is going to have to absorb – unless we do something today to restrain drug prices.

Bringing prices down by even 30 percent could reduce that \$2 Trillion price tag by over \$600 Billion. That is \$600 Billion that could extend the life of the Medicare program, be used to improve our schools, to repair roads and bridges, or bolster our Homeland defenses. Over the life of the Medicare program we could save Trillions of dollars.

We owe it to tomorrow's seniors as well as today's to give them a Medicare prescription drug benefit that is both responsive to their needs and fiscally responsible. We owe it to them to do something about the high cost of prescription drugs, and not simply to pass the financial burden on to our children and grandchildren.

Today's hearing will examine the economics behind the high prices being forced on American consumers for prescription drugs.

In previous hearings we have heard testimony from the pharmaceutical industry arguing that Americans HAVE TO pay the highest prices in the world otherwise Research and Development, of new drugs will come to a screeching halt.

This argument is a myth and nothing more than a scare tactic. The Pharmaceutical industry is perhaps the most profitable industry in the world, and by a wide margin. Even during the recent economic downturn, the profits of the top 10 drug companies jumped 33 percent, going from \$28 Billion in 2001 to \$37.3 Billion in 2002

On average, the drug industry takes 18.5 percent of their income as pure profit and spends 32 percent of their income on advertising to consumers and doctors in order to increase demand for the newest and consequently the most expensive drugs. Only 12.5 percent of the income they derive from the high prices forced on American consumers actually goes back into Research and Development.

The numbers seem to speak for themselves, but I'll let our distinguished panel of experts explain the contradiction between what the pharmaceutical industry says in PR statements and what they say in their Annual Reports to stockholders.

I want to thank Mr. James Love, an Economist from the Consumer Project on Technology, Mr. Bill Vaughan from Families USA, and Mr. Stephen Moore, Senior Economic Fellow with the CATO INSTITUTE for being here with us this afternoon. I

also want to thank Dr. Stephen Schondelmeyer, Professor of Pharmaceutical Economics at the University of Minnesota, and perhaps the nation's leading expert on the economics of the pharmaceutical industry for rearranging his schedule to remain in Washington and testify before the Subcommittee this morning. Thank you Dr. Schondelmeyer.

Finally, I would like to thank Congressman Gil Gutknecht, for taking time away from the meetings and discussions he has been involved with regarding the upcoming Medicare debate to be with us this afternoon. Congressman Gutknecht, along with Congressman Bernie Sanders of Vermont, has really been a driving force in the House on the whole issue of the high cost of prescription drugs here in the United States, and we thank him for his time today and his leadership on this issue.

We have a highly distinguished group of people before us this afternoon and I am sure we will hear some creative ideas for solving this very serious problem, as well as some interesting insights into the numerous and varied tax credits, tax deductions, and research subsidies the pharmaceutical industry receives from the United States.

No doubt we are all familiar with the Taxol case, where the National Institutes of Health did \$484 Million worth of research to develop the drug and received only \$35 Million in royalties from Bristol-Myers Squibb, the company contracted to market the drug. Bristol-Myers Squibb on the other hand made a profit of \$9 Billion thanks to the work done by Federal scientists on the taxpayer's dime.

I am a fiscally conservative Republican who believes in free markets. I believe that making an honest buck is not a bad thing.

I do not believe in or support government mandated price controls. And I have no desire to stifle innovation or curtail legitimate pharmaceutical Research & Development.

On the other hand, do not believe or support price gouging, and so far as I can see, Americans are being gouged by the pharmaceutical industry to fund enormous corporate profits and CEO's salaries. To me that is not acceptable.

We all need to remember that a prescription drug a patient cannot afford to buy saves no one's life, and that the true measure of any society is how well it treats its weakest citizens.

We have a responsibility to ensure safe and AFFORDABLE prescription drugs for American consumers. And I can assure everyone here this afternoon that this Subcommittee and this Member of Congress takes that responsibility very seriously.