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Saving Pfennige, Costing Lives

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By **Doug Bandow**

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Health care is expensive, but inadequate treatment is even more expensive. This is a lesson the German government has yet to learn. For years much of the world has been a free rider on U.S. medical R&D. Most industrialized states rely on a mix of price and volume controls to limit pharmaceutical spending. These governments expect American drug makers to keep supplying their products, almost irrespective of price.

As a result, U.S. citizens are bearing a steadily increasing medical burden: Since 1999 America has accounted for 71% of the sales of new chemical



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the health of their citizens while raising other treatment expenses.

Germany's newly tightened therapeutical reference-pricing program is an unfortunate example. Under reference pricing, drugs are grouped by pharmacological equivalence. Generics and patented products are listed together and reference prices are set based on the difference between the cheapest and most expensive drugs. Innovative and therapeutically important drugs are, theoretically, exempt.

Unfortunately, paying generic prices for patented products obviously discourages further medical development — except when one can rely on the output of the freer American market, as Berlin does. The generics now serving as price benchmarks themselves would never have been developed if the U.S. followed Germany's policy.

Indeed, Berlin's scheme seems designed as much to enrich German businesses as to save money for the German government. For instance, wholesalers and pharmacists receive nearly as many health-care euros as do R&D drug makers.

Even more significant, more money goes to generics firms than to the innovative industry. Although generics account for a smaller share of sales than in America, total outlays are two-and-a-half times as much since German generics cost far more than the international average. The Boston Consulting Group estimates that simply paying U.S. generics prices would save more than €500 million, about half what Berlin currently hopes to save through reference pricing.

At the same time, Germany's reference-pricing program limits patient access to drugs. The result, as the Boston Consulting Group explained in a report on OECD nations, is that the sick are "disadvantaged by the market interventions imposed by their governments: they have less chance of getting the latest drugs, and their chances of recovery or effective relief are to that extent compromised."



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patients' health." Since less appropriate, cheaper medications were substituted for more expensive ones, Mr. Graham noted that there was evidence of "a higher risk of admission to hospital for surgery," as well as "longer stays in hospital, and more visits to physicians and emergency rooms." These sort of costs eat up much of the presumed savings from reference pricing and other regulatory schemes.

In an attempt to mitigate these sort of problems, Berlin exempts innovative products from reference pricing. But in practice the government rarely makes an exception. And patients are rarely willing to pay more to obtain a high-priced drug.

Prof. Oliver Schoeffski, chair for health management at the University of Erlangen-Nuremberg, found severe undertreatment of many illnesses across Europe, including in Germany. For instance, three of four people with high cholesterol were not receiving a statin.

According Dr. James Cleeman, coordinator of the National Cholesterol Educational Program in the U.S., statins are cost effective even at \$100 a month because heart disease costs "hundreds of billions of dollars." Treatment for high cholesterol demonstrates how Germany fails to balance lower cost with better treatment. Some 1.8 million Germans take Pfizer's Lipitor, sold there as Sortis. Numerous studies have demonstrated that Sortis lowers cholesterol and thereby reduces the risk of heart attacks and strokes, even among high-risk populations suffering from diabetes and hypertension.

However, Sortis is being bundled with generic statins, which would impose a price cut of 38% this year and a cumulative reduction of 63% next year. The other medicines work, but studies indicate that Sortis works better — reduces cholesterol more with fewer side-effects. Yet GemBa refused to delay implementation of the reference pricing for statins. Average Germans are the big losers.

German Chancellor Gerhard Schröder said he is open to changing the reference-pricing system, and so he should. Germany's system

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