

Equity in Drug Pricing Policy

It might be said that in an equitable market the rewards received by all suppliers to that market should compare fairly, commensurate with their efforts, and they should compare fairly with the rewards suppliers in other markets receive. It might also be said that the price charged for a product in an equitable market should be commensurate with marginal cost of production. Consumers, fully informed of the product's qualities, will pay that price if it is commensurate with the value they place the product's benefits.

The market for pharmaceuticals is one characterised by huge research and development costs and low manufacturing costs. Inherently it is a market prone to failure. It would fail substantially to supply the products demanded without state intervention. The state, or states collectively, must either protect drug companies with a patent system or must itself, or themselves, do the drug research and development required. Having opted for a patent system policy further intervention is needed to correct the market failure that ensues from monopolies conferred by patents. The central policy problem is to tune patent periods and price regulation, however the latter is managed, to give returns to drug companies that are just high enough so that we get the drugs we want.

The pharmaceutical market is also problematical because of the information asymmetries involved and because many members of a community need drugs they cannot afford even though marginal costs are low.

There is also a tendency for research to focus on diseases of the richer countries where there is sufficient wealth, and systems to redistribute it, for returns on investment to be adequate.

Drugs can increase longevity and quality of life, but so can better nutrition, sanitation, food safety, more exercise, environment protection, safer cars, reducing tobacco consumption and, more indirectly, better jobs, less unemployment and more education. So we have to decide how much to spend on drugs and on finding new drugs as against other things that make our lives better and longer. And we need to decide how to allocate the burden. Stopping preventable morbidity and mortality would clearly be more efficient than curing the ill, but we have to acquire a great deal more sociological, psychological and political know-how to achieve what is theoretically possible. And in any case equity demands that we try to save the people drowning in the river at the same time as we work out how to stop them falling in. But have we got the balance, right? At present we do seem to be paying the lifesavers a fair bit more than the civil engineers.

Formulation of public policy for the optimal development and utilisation of pharmaceuticals requires consideration of many complex equity questions. Equity tensions exist between or amongst:

- nations rich and poor
- taxpayers and pharmaceutical users
- different disease groups
- the old and the young
- the well informed/educated and the poorly informed/educated
- different producers
- generations

Defining what is fair in drug pricing policy is hard enough, but putting it into practice is twice as hard. Neither can be done unless we know what a community regards as fair.

Politicisation of diseases and the tendency for the squeakiest wheels to get the oil are not conducive to an egalitarian approach to drug pricing policy.

How can consumers express their views? What role should lobbying have? How can consumers better exercise their choice on their use of medicines? How can community opinion keep up with ongoing advancement of technology to improve patient health outcomes?

The 1990s have seen much tighter control on public health spending and greater emphasis on achieving both efficiency and equity in health care. These pressures affect the timeliness and availability of drugs in Australia (particularly so-called life saving drugs) and out-of-pocket expenses for consumers. But the optimal outcomes might result from increases in expenditure on drugs relative to other health care expenditures.

It is important that decision-makers are clear about the equity objectives of drug pricing policy. It is unlikely that pricing decisions can ever be justified on equity grounds alone; there will always be implications for efficiency. A central question is how the optimal balance between efficiency and equity might best be achieved.