

US Senate hearings on drug prices provide “friendly warning” to pharmaceuticals

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On Tuesday, executives from seven leading pharmaceutical companies appeared before the Senate Finance Committee to testify about drug prices. While some of the members of the committee occasionally posed as industry critics, the Senate hearing made it clear that no serious action will be taken to rein in high drug prices.

The CEOs of AbbVie, Bristol-Myers Squibb, Merck, Pfizer and AstraZeneca appeared before the committee, along with an executive VP at Johnson & Johnson.

This was the first high-profile congressional hearing since Heather Bresch, CEO of Mylan, went before the House Oversight Committee in 2016 to face questions about the skyrocketing price of EpiPens, which are used to treat severe allergic reactions.

The tone of the hearing was respectful, in contrast to the grandstanding of past hearings, such as when disgraced former Turing Pharmaceuticals CEO Martin Shkreli provided testimony.

At Tuesday’s hearing, Merck CEO Kenneth Frazier admitted that poor patients were the hardest hit by drug prices.

“The people who can least afford it are paying the most,” Frazier said. “We have a system where the poorest and the sickest are subsidizing others.”

“The system itself is complex and it is interdependent, and no one company could unilaterally lower list prices without running into financial and operating disadvantages,” Frazier added.

Democratic Senator Bob Menendez, noting that the drug companies represented at the hearing had spent \$40 billion in stock buybacks after the Republican tax cuts passed, asked if any of the drug companies represented had used their savings to lower drug prices. A couple responded yes, while the rest gave a variety of excuses or struggled to provide an answer.

This line of questioning was largely posturing by Menendez, who opened his comments by praising the drug companies in New Jersey, his home state, and framing his comments as a “friendly warning” to the industry.

According to a report released by Senator Cory Booker in April of last year, none of the top 10 drug companies planned to use their savings from the Trump tax cuts to lower drug prices.

Despite warnings from Senators that they not try to shift the blame, the executives trotted out the usual arguments used by the industry to justify high drug prices. They emphasized their investments in research and development, pointed the finger at pharmacy benefits managers and insurers as sharing part of the responsibility, and threatened that innovation would be harmed if the industry were forced to lower prices (i.e., the drug industry would refuse to produce life-saving medicines if it was not allowed to price-gouge patients).

Republican Senator Bill Cassidy tried to shame Johnson & Johnson Executive Vice President Jennifer Taubert for selling a drug, Duexis, a combination of generic Pepcid and ibuprofen, for \$2,300 for a 90-day supply, only to learn that the drug is sold by a different manufacturer not represented at the hearing, Horizon Pharma.

Democratic Senator Maggie Hassan questioned Taubert about the role of Jassen Pharmaceuticals, which was acquired by Johnson & Johnson in 1961, in creating the opioid epidemic. Taubert attempted to downplay the responsibility of the company by stating that “opioids represent less than 1 percent of our products.”

The Senate Committee also probed other unscrupulous behaviors of the drug industry, such as refusing to provide drug samples to generic manufacturers, which can slow down the approval time of a generic competitor, which must prove to the FDA that its generic version is bioequivalent to the branded version.

All of the CEOs stated that their companies did not engage in the practice. However, Stat News notes that an FDA database showed both Pfizer and AstraZeneca were accused of the practice.

The tepid nature of the current proposals to lower drug prices was indicated by the fact that the drug executives largely endorsed the reforms proposed by the senators, with

the exception of allowing Medicare to negotiate drug prices.

These include the Trump administration's proposal to ban the use of rebates by drug manufacturers to pay insurers, and a version of the CREATES Act, which would ban the practice of drug manufacturers refusing to sell drug samples to potential generic competitors.

In addition to allowing Medicare to negotiate prices, other minor reforms proposed by Democrats, such as Senator Hassan, include legislation permitting Americans to import cheaper drugs from Canada. None of the proposals would in any way threaten the power or profit prerogatives of the US drug industry, which, unlike in other advanced industrialized countries, is allowed to price drugs as they wish.

The pharmaceutical industry knows that it has nothing to fear from the political establishment, which it regularly bribes with large campaign donations. Concerned about the growing rhetoric surrounding drug prices, the pharmaceutical and health products industry has stepped up its lobbying efforts, spending a record \$280 million in 2018 alone, according to the Center for Responsive Politics. The industry's trade group, the Pharmaceutical Research and Manufacturers of America, spent a record \$28 million in 2018.

Political donations by the drug industry are a bipartisan affair. In fact, according to the Center for Responsive Politics, the top four senators who received the most money from the pharmaceuticals and health products sector were Democrats—Bob Casey, Pennsylvania (\$532,859); Heidi Heitkamp, North Dakota (\$309,997); Joe Donnelly, Indiana (\$259,395); and Jon Tester, Montana (\$244,073).

Casey, who received the most money from the industry, sits on the Senate Finance Committee. Others on the committee who received drug industry money in 2018 include Democrat Robert Menendez, New Jersey (\$188,763); Republican Bill Cassidy, Louisiana (\$156,000); Democrat Tom Carper, Delaware (\$143,550); and Republican Mike Crapo, Idaho (\$131,800).

Some senators have even closer relationships with the industry. For example, Joe Manchin, a Democrat from West Virginia who received \$123,672 from the industry in 2018, is the father of Mylan CEO Heather Bresch.

Little affected by the public outrage over skyrocketing costs, drug manufacturers raised prices on more than 250 prescription drugs at the start of the year.

Drug prices continue to rise well above the rate of inflation. A recent report by the American Association of Retired Persons (AARP) found that the prices of 768 widely used prescription drugs rose 50 times higher than the rate of inflation.

As a result of the current system, Americans pay more for prescription drugs and other medical interventions than other

advanced industrialized countries, in some cases ten times as much.

While drug companies highlight their research and development costs to help justify high drug prices, this claim is contradicted by the fact that they generally spend more on marketing and sales than research and development—often much more.

In 2016, the Institute for Health and Socio-economic Policy (IHSP), the research arm of the California Nurses Association, released a report that found that of the top 100 pharmaceutical companies in 2015, 89 spent more on marketing and sales (M&S) than on research and development (R&D). Forty-three of the companies spent five times as much, while 27 spent 10 times as much.

The report emphasizes the increasing role played by shareholders represented by finance capital who have placed pressures on pharmaceutical companies for a high return-on-investment in the short term, leading to a strategy where R&D is increasingly ignored, while the industry aggressively markets the drugs it has already produced.

The rise in the number of mergers and acquisitions among pharmaceutical giants has also undermined support for R&D as significant cuts to R&D programs typically take place after a company is acquired. The report notes that when Pfizer acquired Wyeth in 2009, they had a combined R&D spending of \$12 billion, but just a year later R&D spending was cut in half to \$6.5 billion.

Additionally, drug companies rely upon the billions of dollars of government funding that goes into medical research, such as funding from the National Institutes of Health, which is then commercialized by biotech and pharmaceutical companies, effectively subsidizing their R&D budgets and allowing them to select promising drug candidates discovered with federal funding, rather than fund the uncertain outcomes involved in basic research.



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