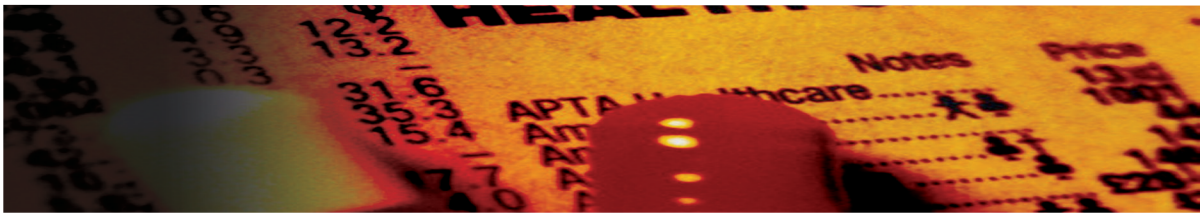
Vo.9 Issue 1



MARCH 2014

IN THIS ISSUE

The editorial "Cancer Drugs in the United States: Justum Pretium—The Just Price" by Hagop M. Kantarjian, M.D., et al., appeared in the October 2013 edition of the *Journal of Clinical Oncology*. Kantarjian is a Baker Institute Scholar in Health Policy and the chair of the Department of Leukemia at The University of Texas MD Anderson Cancer Center.

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HEALTH POLICY research

Rice University's Baker Institute-Baylor College of Medicine
Joint Program in Health Policy Research

Are high cancer drug prices in the United States harmful?

"Yes," says Hagop M. Kantarjian, M.D., in a recent *Journal of Clinical Oncology* article. "Allowing the producer-dominated market to set drug prices has spiraled the cost of cancer drugs out of control."

Two important new drugs, ibrutinib — a treatment for lymphoma — and sofosbuvir — for hepatitis C — come at sticker-shock prices: ibrutinib at $140,000 per year and sofosbuvir at $84,000 to $168,000 for the total treatment.

In a free market, commodities are priced according to "what the market will bear." Artwork by Cézanne can be purchased for $50 (print) or $100 million (original painting). Similar price differences apply to cars, watches, houses, etc. This should not be the case for items that involve life and death or human suffering. In such situations, the doctrine of "just price" or fair price — reasonable profit to the supplier while the item is still affordable to people in need — should prevail.

Cancer drug prices in the U.S. have increased tenfold since 2000. The average cancer drug price for anything from one year of therapy to the total treatment duration was less than $10,000 before 2000. In 2012, 12 of the 13 new drugs approved for cancer were priced above $100,000. This increase in price is harming patients and our health care system, and may represent the crossing of a moral line between earning reasonable profits and profiteering from patients with life-threatening illnesses.

Why are cancer drug prices high? Advocates for high prices (drug companies and their representatives) offer four reasons: 1) high costs of research; 2) differential benefits to patients; 3) free market forces eventually settle prices; and 4) controlling drug prices stifles innovation. None of these arguments are convincing.

First, a careful evaluation of research costs shows the cost of drug development is as low as 10 percent of the cited figures. Second, an analysis of cost-benefit shows no correlation between the price and objective measures of benefit, such as survival. Third, there are no functional market forces that drive patented drug prices to reasonable levels, only what appears to be oligopoly pricing. Fourth, innovation in cancer research is not stifled by curbing profiteering — it is driven by creative researchers, not by the higher salaries of CEOs.

Several factors contribute to the failure of free market forces: "pay-for-delay" and "approved generics" strategies, prohibiting Medicare from negotiating drug prices, and preventing the Patient-Centered Outcomes Research Institute from considering cost comparisons.

Other factors also contribute: bureaucratic burdens; interposition of intermediary regulators (contract research organizations, lawyers); tacit acceptance of high prices by oncologists; reluctance of organizations representing oncologists and patients to advocate for lower prices; and inflation of prices by distributors, pharmacies and hospitals.

What would be a just price for a cancer drug? Put simply, a just price would recognize that most risks and development costs are borne by the public and provide tax breaks and public funding so that cancer drugs are affordable. The prices would maintain reasonable profits, but remain fair, without patient out-of-pocket expenses, and affordable to the health care system.

The pharmaceutical industry is ranked as the third most profitable (19.3 percent return), behind network and communications (20.4 percent) and Internet services (19.4 percent). Unless we define what "reasonable" profit is, we will allow the propagation of harm and injustice upon our patients and the U.S. health care system.

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HEALTH POLICY research presents a summary of findings on current health policy issues. It is provided by Vivian Ho, Ph.D., James A. Baker III Institute Chair in Health Economics at Rice University's Baker Institute, in collaboration with Laura Petersen, M.D., M.P.H., chief of the Section of Health Services Research in the Department of Medicine at Baylor College of Medicine.

This publication aims to make research results accessible to regional and national health policymakers. The views expressed herein are those of the study authors and do not necessarily represent those of the Baker Institute or of Baylor College of Medicine.

The Baker Institute and Baylor College of Medicine's Section of Health Services Research work with scholars from across Rice University and Baylor College of Medicine to address issues of health care — access, financing, organization, delivery and outcomes. Special emphasis is given to issues of health care quality and cost.

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