



## Just Say No to Drug Reimportation

by David Hogberg

Back in September, Illinois Governor Rod Blagojevich announced that Illinois would study “reimporting” prescription drugs from Canada in an attempt to save money on Medicaid and state employee health-care expenses. This inspired Iowa’s Governor, Tom Vilsack, to announce that Iowa will conduct its own study to examine buying prescription drugs from Canada. Within three days of Governor Vilsack’s announcement, the *Des Moines Register* ran two editorials supporting this policy. But the *Register* editorialists, along with most proponents of drug reimportation, are overlooking some serious problems with state governments buying drugs from Canada.

**1. Are drugs cheaper in Canada?** The largely unchallenged premise in this debate is that prescription drugs cost less in Canada. Yet, the studies that show Canada has cheaper drugs suffer from serious flaws, including comparing the wholesale price in Canada to the retail price in the U.S. and using an unrepresentative sample of drugs. In a study for the American Enterprise Institute, Patricia M. Danzon examined all classes of drugs sold in both Canada and the U.S. She found that prescription drugs were about 13% higher in the U.S. when compared as price per gram, but 3% higher in Canada when compared as price per dosage.<sup>1</sup> In short, it is not at all clear that drugs in Canada cost less.

**2. Safety Concerns.** The *Register* claims, “Pharmacists say drugs in Canada aren’t safe, yet there is no evidence to support that.”<sup>2</sup> Actually, that’s not true. In late July of this year, the Food and Drug Administration conducted “blitz” exams at four mail centers to inspect prescription drug packages shipped from other countries into the U.S. The FDA found that 88% of the drug products examined violated FDA standards “because they contained unapproved drugs. Many of these imported drugs could pose clear safety problems.”<sup>3</sup> Of the drugs examined, 14.3% came from Canada. The imported drugs from Canada included unapproved versions of Zocor and Lipitor.

**3. Liability Concerns.** If state government health-care plans import unsafe drugs from Canada, who will be liable? Surely the trial lawyers have many ready answers for that question. The likely targets will be the drug companies and state governments. This question is made even more serious by the fact that the U.S. tort system already results in higher drug prices in this country. Professor Richard L. Manning found that America’s more trial-lawyer-friendly tort system increased the average price of drugs in the U.S. by almost one-half.<sup>4</sup> Either way, Americans will end up paying more in the long run.

**4. Bargaining Power or Price Controls?** The *Register* states, “The Canadian government, by using the bargaining power of the country, secures cheaper drugs for Canadians.”<sup>5</sup> Bargaining power implies that some “bargaining” actually occurs. That is, a seller offers a good at price X, a buyer offers to purchase them at lower price Y, and both sides negotiate until a deal is reached. Canada’s government does not bargain with pharmaceutical companies; it sets the price for prescription drugs via law. The proper term for that is “price control,” not bargaining power.

---

A Publication of:

**Public Interest Institute at Iowa Wesleyan College**

600 North Jackson Street

Mt. Pleasant, Iowa 52641-1328

Phone: 319-385-3462 Fax: 319-385-3799

E-Mail: [public.interest.institute@limitedgovernment.org](mailto:public.interest.institute@limitedgovernment.org) Web Site: [www.limitedgovernment.org](http://www.limitedgovernment.org)

**5. Do the drug companies' interests clash with those of Americans?** According to the *Register*, "It's time for the United States to pay less attention to the drug industry's wishes and more attention to the needs of Americans."<sup>6</sup> Prescription drug companies have very large research and design costs — it is very expensive to bring a new drug to market. To recover their R&D costs, they charge market-based (higher) prices in America. If they were forced to charge Canadian prices here, much of the incentive to create new drugs would dry up. This would have serious, real-world consequences, since drugs often substitute for other more expensive treatments. For example, economist Frank Lichtenberg found that an expenditure of \$11,000 on general medical care extends life by an average of one year, while an expenditure of only \$1,345 on prescription drug research yielded the same result.<sup>7</sup> Forcing drug companies to charge lower prices now will mean that we will all pay higher health-care costs later.

**6. Who's Sponging?** The *Register* writes, "The debate is about whether Americans can legally sponge off Canada's health system. And, yes, that's embarrassing."<sup>8</sup> Yet "sponging" implies that one group is getting a "free ride" at the expense of the other. It is Canada, with its system of price controls, that is able to get below-market prices for drugs produced by American drug companies. American consumers are the ones that fund the costly R&D of drug companies. In short, Canada is sponging off of America. Canadians are the ones who should be embarrassed, not us.

Drug reimportation is an idea fraught with unintended and harmful consequences. It may be unsafe, will result in less spending on prescription drug R&D, and will result in higher health-care costs in the long-term. According to Senator Joe Lieberman, "We've got to ask the Canadians who have price controls [and] the Europeans who have price controls, to begin paying part of that cost" of drug R&D.<sup>9</sup> That is the solution that our nation's governors should pursue.

#### ENDNOTES:

<sup>1</sup>Patricia M. Danzon, "Price Comparisons for Pharmaceuticals. A Review of U.S. and Cross-National Studies," The American Enterprise Institute, 1999.

<sup>2</sup>Register Editorial Board, "Editorial: Yes, Buy Drugs from Canada," *Des Moines Register*, September 25, 2003 <<http://desmoinesregister.com/opinion/stories/c2125555/22337570.html>> (September 28, 2003).

<sup>3</sup>"FDA News: FDA/U.S. Customs Import Blitz Exams Reveal Hundreds of Potentially Dangerous Imported Drug Shipments," September 29, 2003, at <<http://www.fda.gov/bbs/topics/NEWS/2003/NEW00948.html>> (October 2, 2003).

<sup>4</sup>Richard L. Manning, "Products Liability and Prescription Drug Prices in Canada and the United States," *Journal of Law and Economics*, April 1997.

<sup>5</sup>Register Editorial Board, "Editorial: Sponging off Canada," *Des Moines Register*, September 27, 2003. <<http://desmoinesregister.com/opinion/stories/c2125555/22357757.html>> (September 28, 2003).

<sup>6</sup>Register Editorial Board, "Editorial: Yes, Buy Drugs from Canada," *Des Moines Register*, September 25, 2003 <<http://desmoinesregister.com/opinion/stories/c2125555/22337570.html>> (September 28, 2003).

<sup>7</sup>Frank Lichtenberg, "Do (More and Better) Drugs Keep People Out of the Hospital?" *American Economic Review*, May 1996.

<sup>8</sup>Register Editorial Board, "Editorial: Sponging off Canada," *Des Moines Register*, September 27, 2003 <<http://desmoinesregister.com/opinion/stories/c2125555/22357757.html>> (September 28, 2003).

<sup>9</sup>"Text: Democratic Candidates Debate," *Washington Post*, September 25, 2003, at <<http://www.washingtonpost.com/ac2/wp-dyn/A433-2003Sep25>> (October 1, 2003).

*David Hogberg is a Research Analyst with Public Interest Institute.*

*Permission to reprint or copy in whole or part is granted, provided a version of this credit line is used: "Reprinted by permission from INSTITUTE BRIEF, a publication of Public Interest Institute." The views expressed in this publication are those of the author and not necessarily those of Public Interest Institute. They are brought to you in the interest of a better-informed citizenry.*