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A Drug Price Path To Avoid

The next speaker of the House, Rep. Nancy Pelosi (D-Calif.), has let it be known that within her first 100 hours on the job, she will move to allow the government to negotiate directly with pharmaceutical companies to obtain lower drug prices for Medicare patients.

Her plan would create a Medicare drug program that looks a lot like the system we have in my country, Italy, where drug prices are among the lowest in Europe. And that's pretty low, considering that drugs in Europe average about 60 percent less than in the United States. Even as U.S. prices rose, Italian drug prices decreased by 5 percent last year.

At first glance, this might seem an enviable model for America to follow. But before Pelosi rushes down the road to Italian-style health care, allow me to offer a word of caution. Italy is hardly a health-care paradise. In fact, it's more like a quagmire of red tape.

For the most part, Italy's lower drug prices are the product of government price controls. The state purchases nearly 60 percent of the nation's prescription drugs. And it supposedly negotiates prices directly with pharmaceutical companies. But since the Italian government controls such a disproportionate share of the market, it in effect dictates drug prices.

In Italy, these price controls have created a number of problems.

First, they distort the laws of supply and demand. Because of the country's artificially low drug prices, demand for pharmaceuticals is artificially high — higher than it would be under free-market conditions.

The point is that the government's attempt to force down drug prices has not reduced overall health-care spending. Rather, it has resulted in a spike in demand — which is one reason why Italy's health-care spending has skyrocketed, growing nearly 68 percent between 1995 and 2003.

As for the quality of Italy's care, that, too, is suffering. With demand for drugs rising, the Italian government has attempted to save money by adopting reimbursement policies that favor certain drugs over others. Unfortunately, the most innovative products often aren't considered reimbursable by the government precisely because they are the most expensive.

It's a great system if you just need an antibiotic. But if you're hoping to avoid open-heart surgery through access to a miracle drug, it can be a nightmare.

And Italians are lacking more than just choice in cutting-edge drugs. They also lack information. According to a recent survey, more than 50 percent of Italy's patients believe that the national health service cannot even supply adequate information about treatments and drugs.

The economy is also harmed. Because it's simply not profitable for companies to invent cures in Italy, price controls have decimated Italy's pharmaceutical industry. Today not one of the world's 50 largest drug manufacturers has its headquarters in Italy, even though the country is the world's seventh-largest economy. Because most drug and biotechnology companies are outside Italy's borders, there are only 84,000 pharmaceutical workers in Italy's entire drug industry. The industry has become a perfect target for Italy's politicians, because they can rail against it with little political downside. The more we follow this path, the less likely it is for Italian companies to develop valuable innovations — at great risk for both our economy and our health.

So by attempting to hold down drug prices, the Italian government has deprived its citizens of the best care without reducing health-care spending. And it has deprived the country of what could be a vibrant sector of the economy. In their rush to revamp Medicare, U.S. policy leaders should be careful not to make the same mistake.

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