

The Case for a Free Market in Prescription Drugs

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April 15, 2016

Main Points

1. Patent monopolies on prescription drugs impose enormous economic and health costs, equivalent to trade tariff of several thousand percent.
2. There are alternative mechanisms for financing the research and development of drugs.

Prescription Drugs: A Serious Problem of Patent Abuse

TABLE 1

Potential Savings from Ending Patent Protection for Prescription Drugs in U.S.

(billions of 2014 dollars)

	High Savings	Middle Savings
Current spending	\$423.5	\$423.5
Patent free cost	\$42.4	\$63.5
Additional research	\$48.0	\$72.0
Net savings	\$333.2	\$288.0

Source and notes: Author's calculations.

Deadweight loss – cheap drugs become unaffordable

No information gained from current pricing

- a) Crisis – paying firefighters when they show up at burning house
- b) Asymmetric information
- c) Third party payers (government or insurance)

Other Problems of Patent Monopoly Pricing

1. Copycat research
2. Secrecy in research
3. Wasteful marketing, legal cases, lobbying, etc.
4. Misrepresenting research results
5. Directing research towards patentable products

Alternatives to Patents

- 1) Prize Mechanism – Stiglitz
- 2) Direct Public Funding
 - a) clinical trials
 - b) basic research
- 3) New drugs sold at generic prices