



# How Big Pharma Reaps Profits While Hurting Everyday Americans

By Abbey Meller and Hauwa Ahmed | August 30, 2019

It's no secret that the Trump administration has fostered a culture of corruption in which special interests and big donors advance their interests at the expense of everyday people. Perhaps no policy area exemplifies this corruption more than the issue of drug pricing.

President Trump has long promised to stand up to the pharmaceutical industry and lower prescription drug prices, but he has avoided taking serious action to drive down prices while at the same time filling top spots in his administration with industry insiders. This administration's culture of corruption, which continues a decadeslong practice of political pandering to the pharmaceutical industry, carries a real cost; Americans spent \$535 billion<sup>1</sup> on prescription drugs in 2018, an increase of 50 percent since 2010. These price increases far surpass inflation, with Big Pharma increasing prices on its most-prescribed medications by anywhere from 40 percent to 71 percent from 2011 to 2015.<sup>2</sup>

Moreover, pharmaceutical companies receive substantial U.S. government assistance in the form of publicly funded basic research and tax breaks, yet they continue to charge exorbitant prices for medications. But the issue goes beyond cost. In America, more than 1 million individuals suffer from Type 1 diabetes<sup>3</sup>, a condition where the body cannot make insulin, which is essential for getting glucose (also known as blood sugar) into cells from the bloodstream. Without insulin, glucose accumulates in the bloodstream<sup>4</sup>, causing dangerously high blood sugar levels. Among all Americans suffering from diabetes, at least 1 in 4<sup>5</sup> have said that they engaged in insulin rationing—a tactic of using less insulin than is needed in order to make the doses last longer—as a direct result of the skyrocketing price of the drug. A vial of insulin, which is the only life-sustaining option for Type 1 diabetics, retails at around \$300.<sup>6</sup> A 2018 study commissioned by the Congressional Diabetes Caucus found that the price of insulin has doubled since 2012<sup>7</sup>; in the 10 years prior, the price of insulin nearly tripled. Despite the dangers of insulin rationing, which can lead to diabetic ketoacidosis, a fatal condition, many Americans have no other choice. That was the case for Antoinette<sup>8</sup>, whose daughter was rationing insulin due to the high cost and died at the age of 22 as a result.

## Insulin facts

- Access to insulin for patients with Type 1 diabetes is a matter of life or death.<sup>9</sup>
- While insulin has existed since the 1920s<sup>10</sup>, the price since then has skyrocketed, especially in recent years. Prices for insulin increased by 197 percent between 2002 and 2013, from \$4.34 per milliliter to \$12.92 per milliliter.<sup>11</sup>
- There are three insulin manufacturers serving the United States: Eli Lilly and Co., Novo Nordisk A/S, and Sanofi SA.
- Eli Lilly announced<sup>12</sup> in March 2019 that it would begin selling a generic version of its Humalog insulin at half the price. The medication, known as lispro, will cost \$137.35 per vial. To compare pricing, a 2018 study<sup>13</sup> estimated that the cost of making a year's worth of insulin for one patient ranges from \$78 to \$133.
- Ahead of its hearing on drug pricing in February 2019, the U.S. Senate Committee on Finance sent a letter<sup>14</sup> to Eli Lilly asking why insulin is priced so astonishingly high. A vial of NovoLog, one type of insulin, costs<sup>15</sup> anywhere from \$14 to \$300 in the United States but only \$48 in Singapore, \$14 in India, \$6 in Austria, and \$0 in Italy.

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## American taxpayers fund basic research

Billions of taxpayer dollars go into the creation and marketing<sup>16</sup> of new drugs. *The Los Angeles Times* reports that, “Since the 1930s, the National Institutes of Health has invested close to \$900<sup>17</sup> billion in the basic and applied research that formed both the pharmaceutical and biotechnology sectors.” Despite taxpayers’ crucial investment, U.S. consumers are increasingly paying more for their prescription drugs.

A 2018 study<sup>18</sup> on the National Institute of Health’s (NIH) financial contributions to new drug approvals found that the agency “contributed to published research associated with every one of the 210 new drugs approved by the Food and Drug Administration from 2010–2016.” More than \$100 billion in NIH funding went toward research that contributed directly or indirectly to the 210 drugs approved during that six-year period. The NIH Research Project Grant (R01)<sup>19</sup>—which supports health-related research—was by far the most common kind of grant used to fund the science that supported the new drugs. In all, NIH gave out nearly 118,000<sup>20</sup> R01 grants related to those drugs from 2010 to 2016.

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## Federal perks for Big Pharma add up

Pharmaceutical companies also benefit from research and development tax credits. The federal R&D tax credit was first introduced in 1981 to encourage private sector investment in pioneering research.<sup>21</sup> This tax credit is available to businesses that attempt to develop new, improved, or technologically advanced products or trade

processes.<sup>22</sup> In 2015, former President Barack Obama signed into law the Protecting Americans from Tax Hikes Act<sup>23</sup>, which made these tax credits permanent and extended them to small businesses and startup companies.

Pharmaceutical industries also receive a tax deduction for their marketing and advertising expenses. According to a report in the *Journal of the American Medical Association*, “From 1997 through 2016, medical marketing expanded substantially, and spending increased from \$17.7 to \$29.9 billion,<sup>24</sup> with direct-to-consumer advertising for prescription drugs and health services accounting for the most rapid growth, and pharmaceutical marketing to health professionals accounting for most promotional spending.” The report also found that from 1997 through 2016, “the number of advertisements ... increased from 79,000 (including 72,000 television commercials) in 1997 to 4.6 million (663,000 television<sup>25</sup> commercials) in 2016.”

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## Big Pharma’s drug pricing maximizes profits

Despite these taxpayer subsidies, prescription drug prices are nonetheless increasing at an alarming rate. In 2019, price increases from drug manufacturers affected more than 3,400<sup>26</sup> drugs. For example, Allergan, a major pharmaceutical manufacturer, raised prices on 51 drugs, just more than half its portfolio. Some medications that Allergan manufactures saw a 9.5 percent jump in cost, while others saw a 4.9 percent increase in cost.<sup>27</sup> Teva Pharmaceutical Industries Ltd., the largest generic drug manufacturer in the world, increased its drug prices by more than 9 percent.<sup>28</sup> These sharp increases in price occur as companies continue to report millions of dollars in revenue. In 2018, Allergan reported \$15.8 million<sup>29</sup> in revenue, while Teva Pharmaceuticals reported \$18.8 million<sup>30</sup> in revenue.

Pharmaceutical companies’ profit margins receive significant bumps when they launch new drugs, specifically specialty drugs, used to treat life-threatening conditions. These drugs often cost more than most Americans can afford. Pharmaceutical companies have stated that the prices are high because the drugs are difficult to manufacture. In 2013, for example, industry giant Gilead Sciences launched Sovaldi, a hepatitis C drug, at \$1,000 per pill<sup>31</sup>, or \$84,000<sup>32</sup> per treatment, which could last 12 to 24 weeks.<sup>33</sup> After an 18-month investigation into the company’s pricing, the Senate Finance Committee concluded that Gilead had pursued a marketing and pricing strategy designed to “maximize revenue with little concern for access or affordability.”<sup>34</sup>

Drug companies also benefit from patents, which give them monopoly power for their on-patent products. These patents ensure that prices remain high by reducing competition. Drug patents last for 20 years after the filing date. Pharmaceutical companies have also employed tactics such as evergreening and thicketing to prolong a drug’s exclusivity. When evergreening, pharmaceutical companies make certain modifications to a drug such as changing its<sup>35</sup> chemical composition slightly

or making an external change as minor as adding a stripe to a pill<sup>36</sup> in order to preserve their patents. A 2018 study in the *Journal of Law and the Biosciences* found that 78 percent<sup>37</sup> of new drug patents awarded in the past decade went to drugs that already existed. Seventy percent<sup>38</sup> of the nearly 100 bestselling drugs extended their exclusivity protections at least once, and 50 percent extended their patents more than once. The second tactic—thicketing—involves flooding the U.S. Patent and Trademark Office and the courts with excessive patents and applications to make it difficult for competing firms to secure patents. These tactics help preserve pharmaceutical companies’ monopolies and ensure that drug prices remain uncompetitive and thus less affordable for everyday Americans.

While consumers continue to pay the price of this market manipulation, a Government Accountability Office (GAO) report on the pharmaceutical industry found that these unfair practices are significantly enriching manufacturers. As the report stated, “Among the largest 25 companies, annual average profit margin fluctuated between 15 and 20 percent.”<sup>39</sup> The GAO contextualizes these profits by comparing the pharmaceutical industry’s profits with those of its counterparts, stating that “the annual average profit margin across non-drug companies among the largest 500 globally fluctuated between 4 and 9 percent.”

In 2018 alone, the CEOs of major pharmaceutical companies Allergan, Johnson & Johnson, and Pfizer Inc. made a total of \$90 million.<sup>40</sup> Meanwhile, according to a CBS News report, Americans spent \$535 billion<sup>41</sup> on prescription drugs in 2018—an increase of 50 percent since 2010.<sup>42</sup> As pharmaceutical industry profits increase<sup>43</sup>, everyday Americans—whose tax dollars play a critical role in funding the research and development of these medications—are not receiving anything close to a fair return on their investment.

A recent Pew Charitable Trusts study found that Americans spent \$65.8 billion<sup>44</sup> out of pocket in 2016 for retail prescription drugs, up from \$59.5 billion in 2012. The high cost of prescription drugs is a significant driver of medical debt<sup>45</sup> because Americans are increasingly reliant on medication to manage long-term chronic conditions.<sup>46</sup> Additionally, the high cost of prescription drugs has forced many Americans to take drastic measures, including foregoing taking their medications as prescribed or traveling abroad in order to save on medications. A 2019 Centers for Disease Control and Prevention study found that 11.4 percent<sup>47</sup> of adults aged 18 to 64 did not take their prescription drugs as prescribed in order to reduce how much they spent on their medications. And, as NPR recently reported, “The U.S. government estimates that close to 1 million<sup>48</sup> Americans in California alone go to Mexico annually for health care, including to buy prescription drugs.” In May 2019, a group of Americans<sup>49</sup> living with Type 1 diabetes traveled to Canada to purchase insulin and call on the U.S. government to regulate the cost of lifesaving drugs. The costs associated with traveling abroad make it logistically and financially impractical for most Americans. Further, traveling abroad presents certain health risks given that some countries have lax drug certification standards compared with FDA standards.

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## President Trump's broken promises on drug pricing

In an interview with *Time* magazine ahead of being chosen as its Person of the Year in 2016, Trump said, “I’m going to bring down drug prices. I don’t like what’s happened with drug prices.”<sup>50</sup> He promised to bring Americans’ drug spending down to \$0 by negotiating drug prices.<sup>51</sup> Trump made grandiose promises on drug pricing but almost three years later has only managed to deliver a handful of half-measures, illustrating his administration’s lack of commitment to lowering drug prices. One of Trump’s proposals from his so-called presidential blueprint<sup>52</sup> included eliminating some rebates paid by drug companies<sup>53</sup> that hide the true cost of drugs. However, the Congressional Budget Office estimated that the measure would actually increase federal spending on Medicare and Medicaid by \$177 billion.<sup>54</sup> The Trump administration also announced a regulation that would require TV ads for drugs to include the list price.<sup>55</sup> Some experts believe this policy will be ineffective<sup>56</sup> at making pharmaceutical companies lower list prices or end price hikes for drugs and will only confuse or mislead consumers rather than help them.<sup>57</sup> These half-measures, combined with Trump surrounding himself with high-level Big Pharma officials, clearly communicates that the administration is not on track to lower drug costs for Americans.

Congress has done little to address the problem of high drug prices. Instead, many members continue to enjoy cozy relationships with the pharmaceutical industry. The industry spent more than \$62 million in the 2016 congressional elections—the most it has ever spent on political campaigns.<sup>58</sup> The massive influx of campaign cash benefited members of both parties, including those that sit on committees with jurisdiction over drug pricing.<sup>59</sup> Big Pharma’s investment has paid off as recently as July 2019, when the Senate Finance Committee failed to pass an amendment on the Prescription Drug Pricing Reduction Act of 2019, which would have allowed Medicare to negotiate drug prices with manufacturers.<sup>60</sup> Medicare’s ability to negotiate on drug prices, which is currently prohibited by law, “would provide the leverage needed to lower drug costs.”<sup>61</sup>

Despite his promise to be tough on Big Pharma, President Trump has proven to be a friend to the industry. Big Pharma officials have filled at least 16<sup>62</sup> current or former positions in the Trump administration, and many of Trump’s top health advisers have been industry insiders or close to the pharmaceutical companies. Trump’s first secretary of health and human services, former Rep. Tom Price (R-GA), was a long-time friend of the industry<sup>63</sup> in Congress, where he not only pushed Big Pharma’s agenda but also benefited from it financially.<sup>64</sup> Price, who drew scrutiny for more than \$300,000 in health care stock trades, was eventually forced to resign in 2017<sup>65</sup> as a result of his illicit use of private jets on the taxpayers’ dime.

In 2017, Trump nominated Joe Grogan<sup>66</sup> to a top position at the U.S. Office of Management and Budget. Grogan spent five years as a lobbyist for Gilead—the pharmaceutical company that is infamous for its sky-high prices on a cure for hepatitis C.<sup>67</sup> Since joining the administration, Grogan has led drug-pricing proposals and

participated in Trump's Drug Pricing and Innovation Working Group.<sup>68</sup> However, the working group has proposed pharma-friendly measures such as implementing monopoly rights outside of the United States, speeding up approval from the FDA for new drugs, and eliminating price cuts for hospitals in impoverished areas.

President Trump chose to replace Price with Alex Azar, the former president of Eli Lilly—one of the companies that is working to keep drug prices high while everyday Americans suffer—to oversee his efforts to address drug pricing as secretary of health and human services.

In 2018, pharmaceutical companies spent more than \$283 million in lobbying dollars<sup>69</sup>, with Eli Lilly spending just less than \$6.8 million in 2018.<sup>70</sup> While Azar, Trump's chief health adviser, was president of Eli Lilly, the company drastically increased insulin prices. Eli Lilly is currently defending itself against a class-action lawsuit<sup>71</sup> accusing the company of colluding with pharmacy benefit managers—individuals who negotiate drug pricing and availability with drug companies for the government and other insurance plans—to increase prices. Big Pharma and pharmacy benefit managers have been playing a blame game<sup>72</sup> while lawmakers—who have held several hearings in the U.S. House of Representatives<sup>73</sup> and the U.S. Senate<sup>74</sup>—try to find the source of America's drug pricing problem.

Given the sway that Big Pharma has with the administration, the industry has no plans to reduce prescription drug prices or reverse past price gouging. For his part, President Trump tried but failed to pass the American Health Care Act of 2017, which would have hurt millions of Americans while benefiting the pharmaceutical industry, among others. However, he was successful in signing into law a new tax bill that lowered the corporate tax rate by 14 percent, allowing pharmaceutical companies, including those with ties to the Trump administration, to save a total of \$76 billion.<sup>75</sup> After the tax law was enacted, Eli Lilly received a tax cut of nearly \$4.5 billion on offshore profits.<sup>76</sup> Instead of using these tax savings to lower drug prices, big pharmaceutical companies such as Eli Lilly together used \$45 billion of their total tax savings<sup>77</sup> to benefit shareholders via stock buyback programs. After President Trump helped Eli Lilly save billions, Azar, the company's top executive, was confirmed to head the U.S. Department of Health and Human Services<sup>78</sup> at the beginning of the following year.

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## Conclusion

Although the Trump administration keeps promising to lower drug prices, drug costs continue to climb as Americans suffer and pharmaceutical companies profit and their CEOs line their pockets. The government-funded research and major tax benefits that these pharmaceutical companies enjoy help them stay profitable. Meanwhile, they continue to hike up the costs of drugs, particularly life-sustaining drugs such as insulin.

Big Pharma can play this game indefinitely, benefiting from this culture of corruption, using allies in the administration and in Congress to grow their profit margins while everyday people suffer. But there are steps lawmakers can take to reduce the influence of special interests, including Big Pharma.<sup>79</sup> For example, lobbyists are currently allowed to fundraise for candidates for federal office—and many of them provide far more financial support beyond the \$2,800 per candidate limit by hosting fundraising events and bundling contributions. Banning lobbyists from fundraising<sup>80</sup> for candidates would reduce special-interest influence over the legislative process. Another way to limit corrupting conflicts of interest is to ban members of Congress from accepting campaign donations from entities under the jurisdiction of the committees on which they serve. It is understood that conflicts can easily arise from committee contributions, which explains why 88 percent of voters support this prohibition.<sup>81</sup> Additionally, Washington's infamous revolving door between private industry and government must be closed. Proposals to do so include a lifetime lobbying ban on members of Congress and a five-year lobbying ban on senior congressional staffers.<sup>82</sup>

As Americans are caught trying to decide whether to pay for rent or medicine, pharmaceutical companies continue to reap government benefits. Reducing drug prices and the costs that everyday people must pay is not possible without fixing the broken system in Washington.

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