



Why Prescription Drugs are Cheaper in Canada



By David J. Gibson, MD

The reason has very little to do with price controls and a great deal to do with income.

AN ESTIMATED 11 MILLION older Americans pay full price for increasingly expensive medications. The movement to Canada as a source for pharmaceuticals is fueled by a growing militancy among seniors and the awakening of aging baby boomers to a hard fact of retirement.

It is impossible to miss the fact that the costs for prescription drugs between the U.S. and Canada are substantial and growing. In fact, on average the same drug costs 60 percent more in the United States than in Canada. Consider the following comparative prices below, as posted on an Internet web site.

The rush by seniors for lower-priced drugs under Canada's system of socialized medicine was touched off by Congress' prolonged foot-dragging on adding a prescription drug benefit to Medicare. (And now that Congress has added a drug benefit, there is considerable skepticism that it will do much for seniors.)

According to an article in September 2002 in the *Sacramento Bee*, senior groups in Wisconsin, Minnesota and Indiana, with the blessing of their various states, have negotiated a contract with an online pharmacy to order prescriptions by mail. They negotiated pricing for chronically used medications that have resulted in significant savings.

For example:

- The average price for a month's supply of Celebrex is \$80 in the U.S. compared with their negotiated price of \$27.50.
- Canadian pharmacies charge \$2 per tablet for Lipitor instead of the current \$3 per tablet in the United States.
- In the United States, Coumadin costs a patient \$60 for 90 tablets. In Canadian the pharmacies charge \$22 for 100 tablets.

What is going on here? Why can patients purchase the same medications in unopened bottles from the pharmaceutical manufacturer in Canada for significantly less than in their neighborhood pharmacy?

The answer came as a surprise to me. According to a just released study by the Fraser Institute,¹ price controls imposed by Canada's Patented Medicine Prices Review Board are not a significant cause of the "cheapness" of Canadian patented drugs.

Although there are no price controls on Canadian health-related goods and services in general, they are "almost as cheap relative to those in the United States as patented drugs are...."

A major cause of the growing gap in drug prices is that Canadians are getting poorer compared to Americans. In 1997, the U.S. per capita Gross Domestic Product was 46

percent greater than Canada's, but grew to 55 percent greater in 2001.

Prices of many goods tend to be cheaper in Canada; for example, automobile prices were 16 percent lower in Canada in 1999.

The study concludes that "drugs sold in Canada, like cars sold in Canada, are cheaper because Canadians can't afford to pay more for them." This finding raises interesting public policy issues.

In essence, this data demonstrates that health care financing conforms to a basic law of physics. If my failing memory serves me correctly, I recall that a gas will expand infinitely to the volume of its container. Similarly, the pricing of health care goods and services is based upon what the market will bear. Pricing is not based upon some empiric agreed-upon formula.

Thus, the out of control price spiral for health care goods and services in the United States is a direct result of our society's ability and willingness to pay for those goods and services. Thus new injectable drugs such as Infliximab (Remicade) will not cost \$1,000 per month unless a patient or a third party has the resources and the willingness to write a check for this amount. Similarly, hospitals cannot extract a \$1,000 dollar surcharge for patients entering the emergency department unless some entity will write a check for this amount.

In short, the only way to move America's health care prices toward inflationary trends that reflect the rest of the economy is to displace our inherently inflationary third-party based underwriting mechanism. The current system shields patients from the true costs and facilitates our out of control and increasingly unsustainable health care inflationary trend.

One additional conclusion from the Fraser Institute study bears careful attention. If in the future, U.S. policy makers by fiat require drug makers to sell pharmaceutical drugs in America at a Canadian or an international price, the likelihood is that drug prices will rise worldwide toward U.S. prices - because the United States represents about half the world market for prescription drugs.

The end result would be explosive increases in costs that would damage patients in other countries. This damage would be directly fueled by America's inefficient, over-regulated and hyper-litigious system for financing health care. In the end, we will be exporting our problems to other countries.

DRUG NAME	Strength	Qty.	Canadian Price	AARP Price	Save	RX Chain	Save
Celebrex Caps	100 mg	100	72.36	136.95	64.59	154.86	82.50
Claritin	D 24 H	10	18.69	27.02	8.33	28.30	9.61
Glucophage*	500 mg	100	20.49	71.90	51.41	82.77	62.28
Lipitor Tablets	20 mg	90	191.92	258.90	66.98	290.15	98.23
Premarin*	0.9 mg	100	21.92	80.95	59.03	80.11	58.19
Synthroid	.175 mcg	100	15.26	57.55	42.29	54.99	39.73
Tamoxifen	20 mg	100	42.52	334.00	291.48	323.30	280.78
Vioxx Tablets	12.5 mg	30	50.93	73.50	22.57	86.13	35.20
Zantec*	300 mg	100	83.87	300.45	216.58	316.63	232.76

dgibson@email.msn.com

1. The report can be found under www.fraserinstitute.ca
2. Price comparison chart.

Sierra Sacramento Valley Medical Society
 5380 Elvas Avenue #100 • Sacramento, CA 95819
 916.452.2671 PH • 916.452.2690 FX • Email: info@ssvms.org

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