

Wrong: Cheap Canadian Drugs Won't Heighten Opioid Crisis

Jeffery Miron

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Senator Bernie Sanders has introduced a bill in Congress that would allow the importation of prescription drugs from Canadian pharmacies, subject to controls aimed at ensuring safety. The goal is to lower prices for Americans, because many drugs sell for far less in Canada.

The U.S. drug lobby, and many other groups, oppose this importation, claiming that consumer savings would be minor and that imported drugs would not meet the same safety standards as those sold in the United States. Furthermore, recent commentary suggests that legalizing Canadian importation would exacerbate the opioid crisis in the U.S. by expanding access and lowering the costs of prescription opioids.

These concerns are unjustified and in some cases just self-interested scare mongering. The crucial question about legalizing importation, implicit in the industry's opposition, is its possible effect on drug innovation in the United States.

The safety concern is easy to dismiss. Innumerable goods flow across the U.S.-Canada border every day, with little evidence of unsafe imports. U.S. consumers and their doctors have ample incentive to order from reputable Canadian suppliers, who in turn have no incentive to kill off their paying customers. Canadian drugs already flow across the border to some degree, with minimal examples of adverse consequences.

Whether the cost savings from this importation would be large depends on multiple factors, such as how the Canadian government adjusts its price controls, and how U.S. drug makers change their distribution and pricing policies. If safety concerns are minimal, however, any cost savings are valuable even if modest.

The fear that importation will exacerbate the U.S. opioid crisis is also misplaced. Prescription opioids are already widely available and usually inexpensive; despite concern over the increasing opioid death rate in the U.S., many doctors still prescribe opioids routinely. And most of the increase in opioid-related deaths over the past six years has involved heroin and fentanyl rather than prescription opioids; these substances are already outlawed or tightly controlled, both in the U.S. and Canada.

Legalizing importation might, however, harm new drug innovation. Private investment in new drugs is potentially less than is socially desirable because, absent patent protection, innovators cannot easily capture a large financial return. Innovation is expensive, and once a company has invented a new drug, rival companies can often reverse engineer it and then offer a competing product.

The standard policy response is patent protection, which provides an innovating firm the exclusive right to sell the patented product for some period of time; this allows the innovator to recoup its research and development expenses by charging a price well above production costs. Some academic research suggests that patent protection does not necessarily increase innovation, but one industry where it appears to matter is drugs.

Importation, however, undercuts patent protection if other countries limit U.S. drug prices (as Canada does), since many consumers will then buy their drugs at low prices in Canada, robbing the innovator of the high-priced sales necessary to pay off their research and development investments. The option to buy at low prices is good for consumers with respect to existing drugs, but bad over the longer haul if lower profit potential discourages new drug innovation.

Determining the right combination of patent and importation policies is thus a messy and difficult empirical exercise; and given available evidence, reasonable people can disagree on whether importation will be beneficial or harmful on balance. But drug innovation is the crucial issue in this debate; not consumer safety or the opioid crisis.

Jeffrey Miron is director of economic studies at the Cato Institute and the director of undergraduate studies in the Department of Economics at Harvard University.