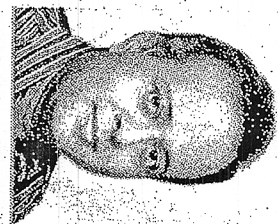


The price of free drugs



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The health ministry is piloting a new scheme: It wants government hospitals and primary health centres to distribute free medicine to patients. The cost of healthcare, the argument goes, is prohibitively high for the *nam admi*, and such a move would bring it down significantly. You could argue that the world is trying to control healthcare costs with insurance, but it is yet to reach the poor in India; hence, such an intervention is required. Health insurance, anyway, doesn't cover out-patients. Going into the next general elections in 2014, this could earn the Congress-led United Progressive Alliance brownie points with the electorate. "We gave you free medicine" — it could be a great slogan. How much will the scheme cost the government? The bill could be upwards of ₹30,000 crore every year.

This is not a small price to pay. But that's not the only reason why the idea needs to be probed further. Medicine in India is among the cheapest in the world. The country, till a few years ago, recognised only process patents and not product patents. This meant that an Indian pharmaceutical company could make any medicine on earth, provided it did so with a new process. Even these stipulations were loosely enforced. This has given three unique features to India's pharmaceutical industry: one, there are hundreds of brands of every medicine available in the market; two, there are over 20,000 pharmaceutical companies in the country, many of them large enough to be accommodated in a garage; and three, India has developed great capabilities in process chemistry. All this has ensured that medicine prices remain competitive.

Then there is price control. At the moment, the prices of 74 bulk drugs are controlled by the government, which also brings 300 or so formulations (combinations of bulk drugs) on the "essential drugs" list under control. In fact, the government now wants to freeze the prices of these bulk drugs for a period of two years. And eventually, it plans to move from controlling bulk drugs to formulations. This will bring all the 600 or so formulations on the "essential drugs" list under price control. The move is prompted by the recent rise in the prices of medicines. Of course, pharmaceutical companies are opposed to the move because it could erode their profits.

On the other hand, the assured business of at least ₹30,000 crore (from free medicine in government-owned hospitals) should be good news for the industry. But imagine the scenario where hundreds, if not thousands, vie to get these orders. They will all curry favour with the powers that be for this easy business. Given the numerous irregularities that have occurred in government procurement, it will soon become a hotbed of corruption and scams. Just like the fuel subsidies have given rise to a huge parallel economy, and just like the proposed food subsidy is sure to take pillage to new dizzying heights, free medicine in government hospitals will be a fertile breeding ground for corruption and favouritism.

Many years ago, the Soviet Union used to buy medicines from Indian pharmaceutical companies. The orders were placed in large volumes and the process of price discovery was opaque. Many companies made their fortune in that business. The Soviet officials who came to write the orders were taken excellent care of from the moment they set foot in

India. No stone was left unturned when it came to hospitality. All they had to do was express a desire and their Indian hosts would make it happen — anything. The new situation that you are going to have, if the promise of free medicine in government hospitals is carried out, will not be very different, except that in place of Soviet officials you will have Indian decision makers: leaders and bureaucrats. An ecosystem will evolve in no time of "experts" who will get such orders for a commission. Many such firms are already around. They help companies "participate" in government bids; they will have another avenue to put their core competence to good use. Anybody who has the faintest insight into how the government functions will tell you that it holds great promise for such experts. Inspectors who will be responsible for certifying that the production facilities are in good shape will have a field day.

The assured business will kill whatever little research Indian pharmaceutical companies are doing in the field of new drugs and drug delivery. As it is, India's track record here is abysmal. The promise of drug development at a fraction of Western costs has more or less dissipated. Only a handful of companies are really serious about research. The proposal for free medicine will be the last nail in research's coffin.

The government may also be barking up the wrong tree. The problem in government hospitals, especially in villages, is not the price of medicine but the availability of doctors and paramedical staff. Bhuvan Chandra Khanduri, in his first stint as the chief minister of Uttar Pradesh, had tried to address the problem by offering to give scholarship to medical students in the state, provided they spent the first few of their working years at primary health centres in villages and remote areas. But the scheme didn't take off.

Free medicine is a subsidy no future government will have the guts to roll back. The electoral impact is too serious. It may be unaffordable but the political gains are simply too irresistible. It's another bad idea whose time has come.