Pharma Spends More Money Increasing Shareholder Wealth Than It Does on Research and Development

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Ringing in the New Year with price rises on more than 350 drugs they market in the United States, senior pharma industry executives will have been busy rehearsing their well-worn claim that such increases are necessary to support research and development costs. Lowering drug prices, they argue, would reduce profits and stifle product innovation. If we examine the evidence, however, the truth turns out to be rather different. A recent study shows that between 2012 and 2021, major pharma companies in the United States spent more money on stock buybacks and shareholder dividends than they did on research and development.

Authored by economists **William Lazonick**, professor emeritus of economics at the University of Massachusetts, and **Öner Tulum**, a researcher at Brown University on Rhode Island, the study describes how evidence strongly contradicts the pharma industry's assertion that it is necessary for drug prices to be unregulated in order to generate profits for reinvestment in innovative new medicines. In reality, rather than using profits to increase investment, pharma companies focus instead on maintaining high drug prices so that, by making massive distributions to shareholders, they can boost the yields on their publicly traded shares.

The study reveals that between 2012 and 2021, the 14 largest publicly-traded pharma companies in the United States spent $747 billion on stock buybacks and shareholder dividends – an amount that exceeds the $660 billion they spent on drug research and development. Stock buybacks are increasingly being used by firms as a means of manipulating their share prices. By repurchasing shares of their own stock, they reduce the number of shares available and increase the value of those that remain. As such, the value of a company can be artificially inflated irrespective of the efficacy or safety of its products. While this practice has been legal in the United States since 1982 and has since become widespread, the study authors argue that it should be banned.

The need for radical reform of the global healthcare system

The findings of this study clearly demonstrate that at its core, the pharma industry isn't really a *health* industry; it is an investment industry whose primary purpose is enriching the bank balances of its shareholders. To the senior executives heading the world's pharma companies, the needs of human health come a very poor second behind the generation of stupendous wealth and profit. As perverse as it might seem, it isn't even in the interests of the pharma industry to prevent diseases. To the contrary, in fact; the continued existence and expansion of human health problems is a precondition for the industry's financial growth.

With even the *British Medical Journal* now openly admitting that the pharma industry has corrupted medicine, the need for radical reform of the global healthcare system has never been more urgent. An alternative model – focusing on disease prevention and the use of science-based natural health approaches – already exists. Implementing it in a not-for-profit form and providing free health education to people of all ages will be vital towards ensuring its long-term success and survival. Meantime, as Lazonick and Tulum's study essentially proves beyond doubt, the pharma industry's financialized business model is terminally sick and incapable of reform.

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