

The Emerging U.S. Oligarchy

Historically depressions are an opportunity for bargain hunting by those left holding cash when the music stops. But looking back over history it's not inevitable that this consolidation proceeds unhampered. It's interesting to compare the Roosevelt administration's response to the Great Depression to our current political class's response to our economic crisis.

When asked the causes of the 1929 Crash, President Roosevelt's Chairman of the Federal Reserve, Marriner S. Eccles, compared the economy of the late 1920s to a poker game: "Where the chips were concentrated in fewer and fewer hands, the other fellows could stay in the game only by borrowing. When their credit ran out, the game stopped."^[1]

After a period of consolidation in the late 1920s, there seems to have been an understanding after the 1929 Crash that without average citizens having a fair shake, the economy was unlikely to rebound. In 1936 Congress passed the Robinson-Patman Act that penalized price discounting between large suppliers and monopolistic retailers, allowing mom and pop operations to compete with the emerging superstores of the time like Sears and A&P. The act was seen as filling loopholes left by earlier anti-trust laws, specifically the Clayton Act and the Sherman Act, both written to remedy the vast monopolies created during earlier boom and bust cycles.

In 1948, single location retail firms accounted for 70 percent of retail sales and firms with more than 100 outlets a mere 12 percent.^[2] This was an arrangement actively fostered by government agencies such as the Federal Trade Commission (FTC) that successfully prosecuted a landmark Robinson-Patman case that year: FTC vs. Morton Salt.

Fast forward to today's retail landscape where mom and pop establishments account for 39 percent of sales and large retailers have seen their share shoot up to 37 percent.

Political institutions are no longer in the business of keeping the playing field level; they have now moved into the business of picking winners. This has happened most dramatically in the banking sector. Thanks to a series of government-mandated shotgun marriages between various mega-banks in late 2008, four institutions (J.P. Morgan Chase, Bank of America, Wells Fargo and government owned Citigroup) now issue half of all US mortgages and about two out of every three credit cards. The frenzy of mergers that took place over a few short weeks in the fall of 2008 grew Bank of America's asset base 51 percent, Wells Fargo's 138 percent, and J.P. Morgan Chase's 43 percent.^[3]

In an emerging trend where government agencies consistently override long standing rules to facilitate sector consolidation, J.P. Morgan Chase, Bank of America and Wells Fargo were each allowed to hold more than 10 percent of the nation's deposits despite a rule barring such a practice. According to Federal Reserve documents, in several metropolitan regions these banks were permitted to take market share well beyond what Justice Department antitrust guidelines typically allow.^[4]

In other sectors, state agencies are likewise coming to the aid of behemoths that might otherwise start falling prey to smaller competitors. Once the FTC prosecuted dozens of Robinson-Patman violations a year, usually settled in small players' favor. Today the FTC is focusing on helping the already grossly consolidated media sector fight off competition from independent, mostly on-line media sources. This coming December the FTC plans on holding a two day workshop which, according to its website, will explore a "variety of governmental policies – including antitrust, copyright, and tax policy – that have been raised as possible means of finding new ways for journalism to thrive."^[5]

Reading between the lines, it is impossible not to see these suggestions as ways of tilting the playing field even further in favor of the major companies that currently control most of the media in the US.

This rapid consolidation of media corporations – since 1995, the number of companies owning commercial TV stations declined by 40 percent - has been aided and abetted by the FCC which has consistently relaxed media ownership rules. In 2003 it voted to allow the broadcast networks to own television stations that reach a combined 45 percent of the national audience, up from 35 percent.^[6]

And when the FCC doesn't do its bidding, large media conglomerates with deep pockets turn to the courts. On August 28, 2009 the US District Court of Appeals for the District of Columbia Circuit struck down a FCC rule prohibiting any cable television operator from serving more than 30 percent of US subscribers.^[7] This in a sector where three media giants already own all of the cable news networks, with Comcast and AOL Time Warner serving 40 percent of cable households.^[8] Standard antitrust theory classifies a market as no longer competitive when the four biggest players control 40 percent of an industry sector.

Nowhere has the day-to-day effect of sector consolidation been more apparent than in the retail sector that employs about 17 percent of the US population (up from 12 percent in 1958).^[9] To understand the scale of retail consolidation over the last 40 or so years, consider that while the US population increased by just over 100 million people or 56 percent during this period, the number of retail establishments serving this population grew by only 17 percent.^[10]

Whilst retail consolidation has had a marked impact on people's shopping habits, its effect on retail employment has been particularly stark. Until around 1980 single location retailers and chains employed roughly the same number of employees. Since 1980, the chain store share of employment has increased to almost two-thirds of total retail employment. Between 1976 and 2000, employment at single location retailers grew by roughly 2 million workers while employment growth at the lesser number of chain store retailers was almost 8 million.^[11]

As large retail conglomerates spread out across the US, consistently paying around 10 percent below market rate and driving out local competition, academics have identified

and measured a “Walmart effect” on wages.^[12] Authors estimate that in 2000 for example total earnings of retail workers nationwide were reduced by \$4.7 billion due to Wal-Mart’s presence.^[13]

In addition to depressing wages, retail consolidation has had an effect of deskilling retail employment. For example, the advent of boxed beef shifted most meat cutting away from stores and back to the slaughterhouse, eliminating one of the most skilled retail occupations. And where store clerks might once have involved in making purchasing and marketing decisions, today “voice-tech” technology has in many cases reduced warehouse workers to deskilled gofers.^[14]

So with so many people losing, who’s winning? According to the latest statistics from the Internal Revenue Service the income gap between the top 10 percent and the bottom 90 percent has reached a level higher than any other year since 1917, even surpassing 1928, the peak of the stock market bubble of the “roaring” 1920s.^[15]

After essentially plunging in the run up to America’s entry into World War II, the percentage share of national income going to the top 10 percent of the population remained relatively stable for 40 years, before starting a dramatic climb beginning in the early 80s.

This U-shape of the data is replicated when viewing the share of wealth of the top 0.01 percent – the 14,558 top families reporting annual income over \$11.4m whose share of the national income has more than tripled over the last quarter century: Compounding this trend towards consolidation is a tax code that increasingly benefits the wealthy.

In 1960 President Eisenhower warned of the inherent dangers of a country where “a few families are fabulously wealthy, contribute far less than they should in taxes, and are indifferent to the poverty of the great masses of the people. A country in this situation is fraught with continual instability.”

Reflecting this bi-partisan consensus, in 1955 America's 400 highest-income taxpayers averaged about \$12 million in income in today's dollars. They paid, after loopholes, 51.2 percent of that in tax.

Average Americans prospered during this period. In the quarter-century right after World War II, America's typical family income more than doubled – after taking inflation into account.

In 2005, the 400 richest US taxpayers averaged \$214 million and paid federal taxes, after exploiting loopholes, at a mere 18.5 percent rate.

By contrast, the last quarter-century has seen wages today, after inflation, actually running less than wages in the early 1970s.^[16]

Footnotes:

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Market Consolidation within the U.S. Food Chain

Market consolidation within the US food sector has proceeded at a dizzying pace in recent years, with ownership concentrations occurring both within each step of the food chain and between the various stages of production – so-called supply chain consolidation.

When viewing the following statistics, it is important to note that in standard antitrust theory a market stops being competitive when the four biggest players control 40 percent of an industry sector.

Farmers

Probably the biggest losers in this process have been farmers: the number of individual US farms has declined by about 60 percent since 1947 – from around six million

individual farms in 1947 to just over two million in 2008. The most recent waves of consolidation occurred in the mid 80s and again in the late 90s when depressed commodity prices fueled massive farm sales.^[1]

As farms have consolidated into vast agri-business concerns, fewer farms make up a larger and larger portion of total agricultural sales. In 2007 for example, less than 2 percent of all farms (32,886 farms) accounted for half of total sales of produce to processors. Consolidation has been particularly extreme within hog farming – between 1987 and 2007 there was a 70 percent decline in number of pig farms (from 238,819 to 74,789 nationwide). By 2007 just 1,713 hog farms accounted for half of all sales.^[2]

To enable these scales in production, hog farming has become a huge, highly specialized operation. Hogs on farms with more than 1,000 head increased from 37 percent of the swine population in 1987 to 89 percent in 2004. From 1994 to 2004, the percentage of hogs produced on farms with 2,000 or more hogs increased from 38 to 79 percent.^[3]

Rapid concentration in milk production has likewise been taking place. From 1994 to 2004, the number of dairy farms decreased by 45 percent, but milk production per farm doubled.^[4] As the number of farms has steadily shrunk, farmers have simultaneously faced massive consolidation amongst their suppliers - the seed, fertilizer and chemical producers. Between 1970 and 2000, small private seed firms essentially vanished, with more than 50 acquisitions of seed firms by pharmaceutical and chemical firms.^[5] By the 1980s, the maize seed market was dominated by two firms and by the late 1990s, over 90 percent of cotton seed, 69 percent of maize seed and nearly half of soybean seeds were sold by the four largest firms in each crop.^[6] Today Pioneer controls 83 percent of soybean market while Monsanto owns 90 percent of cottonseed market.^[7]

With farmers reliant on a handful of seed corporations, their choices of what to plant have become severely restricted. In the US, there is virtually no open pollinated corn seed available except in very limited farmer-to-farmer sharing networks. Given that over 90 percent of Midwestern soybeans are Round-up Ready (RR), sourcing non-RR

soybeans has become virtually impossible, with all the stresses and inconveniences of sourcing specialty crop seed but none of the benefits. Virtually all new soybean genetics (even those achieved through conventional breeding) now contain RR technology.^[8]

When sourcing fertilizer, farmers face a similarly consolidated supplier market. One firm Cargill/Mosaic has an estimated 50-60 percent share of the US fertilizer market.^[9] Two companies, Yara and Cargill/Mosaic own 14 percent of the world's phosphate, and 16 percent of the world's potash. The top five fertilizer firms control 60 percent of the world market. In a pattern seen throughout the food sector, large corporations achieve consolidation within a range of supporting industries, meaning that farming chemicals, genetic technologies and seeds are often sold to farmers in a single-bundled package.^[10]

Processors

Once produce leaves the farm gate it shifts into a highly consolidated distribution network. The terminal elevators that move grain along major rivers and ports are owned primarily by the big three: Cargill, ADM and Bunge.^[11]

The food then enters a highly concentrated processing system. The meat processing industry is one of the most consolidated in the US. Four beef packers dominate 84 percent of the beef market (Tyson, Cargill, Swift & Co, National Beef Packing) and four pork packers control 66 percent of the pork market (Smithfield, Tyson, Swift & Co and Cargill).^[12]

As the number of slaughter houses decreases, their scale increases. Between 1997 and 2006 the number of pig slaughter plants declined 20 percent but the number of pigs being slaughtered increased 64 percent. A similar pattern can be seen amongst cattle slaughter houses: a 22 percent decline in the number of establishments has been accompanied by a 70 percent increase in the number of cattle being slaughtered.^[13]

The pattern continues with poultry processing: the top four poultry companies process 59 percent of the broilers in the United States (Pilgrim's Pride, Tyson, Perdue and Sanderson Farms) up from 35 percent in 1986. Pilgrim's Pride and Tyson together control 47 percent of the broiler market.^[14]

Tyson Foods is listed in the top two of the pork and broiler markets and number one in the beef packing market. All told less than 10 firms slaughter and process almost all of the broilers, turkeys, cattle and pork eaten in the US.^[15]

Grains and bean processing has become similarly consolidated. Four firms, ADM, ConAgra, Cargill and Cereal Food, own and operate 62 percent of all US flour milling. ADM, Cargill, Bunge, and AGP do 80 percent of all US soybean crushing. And ADM, Cargill, A. E. Staley and CPC International, own 74 percent of the US corn wet milling industry.^[16]

Concentration within the dairy processing industry has also been dramatic. The USDA reports that 403 plants produced cheese in 2002, down by almost 60 percent from 1970 (993 plants). Average cheese production per plant quadrupled from 1972 to 1992.^[17]

Within the fluid milk industry, Suiza Foods emerged as a prominent player in the 1990s by purchasing 20 fluid milk firms, while competitor Dean Foods acquired 14 fluid milk firms in 1997 and 1998.^[18] A 2001 merger between Suiza Foods and Dean Foods - at the time the nation's number one and two dairy processors - has resulted in one company accounting for 30 percent of the US fluid milk market.^[19]

This stranglehold on the food-processing sector has enabled a relatively small group of corporations to extend their reach back into the supply chain, influencing day-to-day operations within the farming sector. For example, to take advantage of the large poultry processing facilities, poultry farmers must agree to sign a production contract. These growers are essentially paying for the right to produce broilers for companies that determine (and own) what genetics will be provided, what feed will be fed, what

veterinary treatment will be used, when broilers will be sent to the farm and when they will be taken to market. This is classic piece rate reimbursement with the added humiliation of paying to get into the relationship.^[20]

By breaking out the various sector inputs in the final retail product it is possible to calculate the ever-decreasing farmers' share of the price the consumer eventually pays for food. For example between 1980 and 2007, the spread difference between the price paid by the farmer for pork and the price paid by the consumer has increased from 70c/lb to 230c/lb and for beef from 75c/lb to 210c/lb. Averaged out across all produce, the share of the final retail price of food that goes to the farmer has decreased from around 36 percent in 1980 to 20 percent in 2006.^[21]

Put in terms of equity, farmers receive about 4.5 percent return on their equity while the more dominant food firms expect to generate at least a 20 percent return to their equity.^[22]

As big food processors like Cargill strengthen their hold throughout the food supply-chain, consolidating in both the feed and fertilizer sector, they are essentially able to squeeze farmers both before produce leaves the farm and after it enters the processing stage.

Ever increasing consolidation continues as produce moves into the food manufacturing sector. Over the 1997-2002 period, nearly two-thirds of food manufacturing industries became more concentrated. Industries where four firms hold a particularly high concentration within food and beverage manufacturing include: breweries (91 percent), malt manufacturing (91 percent), beet sugar (80 percent), breakfast cereal (78 percent), other snack foods (75 percent), distilleries (71 percent) and specialty canning (71 percent).

Between 1963 to 2002 the number of food processing plants and companies dropped by over 40 percent, with the top 50 companies share of shipment value increasing from 32 percent in 1963 to 53 percent in 2002.^[23]

Wholesalers and Retailers

Once food finally enters the wholesale and retail sectors it is being sold into a similarly concentrated environment. The top five grocery retailers in 1997 (Kroger, Safeway, American Stores, Albertson's and Ahold USA) held 24 percent market share. By 2007 the top five (Wal-Mart, Kroger, Supervalu, Safeway and Ahold) held 48 percent market share.^[24]

The ascent of Wal-Mart is of particular note. Within 12 years of opening its first supercenter in 1988, Wal-Mart had become the nation's leading grocery retailer. From 1999 to 2005 its share of grocery and tobacco products increased from 16 percent to 29 percent.

At this point, Wal-Mart's affect on the US GDP can start to be calculated – growing between 1995 and 2005 from 1.3 percent to 2.4 percent. The company's percentage of total US employees increased from 0.59 percent in 1995 to 0.99 percent in 2005.^[25] Given its immense and growing size, Wal-Mart is changing the traditional relationship between manufacturer and retailer.^[26] The company is the biggest customer of many of the nation's leading food processors, and its share is continuing to grow. As manufacturers commit their resources to serving Wal-Mart, they may provide less support for retailers that are unable to provide the same sales growth.

The shifting relative power of the food retailers has enabled them to dictate terms to food manufacturers forcing changes through the system all the way back to the farm level.

For example, in 2001, Tyson purchased IBP's beef and pork processing operations for the stated reason of being able to supply the entire meat case to its big customers.^[27] Tyson, in turn, dictates conditions back to the farmer, as outlined above.

To deal with the consolidating retail sector, some of the largest grocery wholesalers are vertically integrating into retailing. For example, in 2005, Roundy's, formerly the eighth-ranked grocery wholesaler, changed its name to Roundy's Supermarkets to better reflect the company's retail focus. The company also sold part of its distribution business to Nash Finch and Supervalu. In 2006, Supervalu, formerly the ninth-largest grocery retailer and second-largest grocery wholesaler, along with a consortium of investors that included CVS Corp, the large drugstore chain, acquired Albertsons for \$17.4 billion. The deal boosted Supervalu to the third-ranked position among grocery retailers, behind Wal-Mart and Kroger.^[28]

Organic Food

In recent years organic food sales have been soaring and this sector has not been exempt from the overall pattern of consolidation within the food chain.

Organic food sales increased an average of 19 percent annually from 1998 to 2006, while the rest of the food industry grew at a rate of less than 4 percent.^[29] In 1998, organic foods totaled less than 1 percent of all US food sales (\$4.3 billion); by 2006 this had almost tripled to 2.8 percent (\$16.7 billion).^[30]

By 2002, when a national organic standard was finally implemented in the US, two companies dominated organic distribution (United Natural Foods and Tree of Life) and two firms dominated organic retailing (Whole Foods and Wild Oats). From 1999 to 2006, sales by United Natural Foods increased by 95 percent, compared with a 16 percent increase for all merchant food wholesalers. Over the same period, sales at organic retailers Whole Foods and Wild Oats, grew by 275 percent and 64 percent, respectively, compared with a 22 percent increase for all grocery stores.^[31]

By 2007 14 of the top 20 North American food processors had either acquired an organic brand or introduced one of their own. Of the approximately 90 top selling

independent organic brands existing in 1995 only 6 remained in independent hands by 2007. The rest are now owned by large food manufacturers such as Heinz, Cadbury, Schweppes, Kraft and General Mills.^[32]

The Future

In recent years the organic farming sector has attempted to fight back food chain consolidation by expanding farmers' markets and establishing community supported agriculture (CSA) farms. The number of farmers' markets - where one third of the vendors typically sell organic foods - grew from 1,755 in 1994 to 4,385 in 2006, a phenomenon that looks likely to continue.^[33] CSA farms that are primarily organic, increased from 0 in 1984 to approximately 2,000 in 2007.^[34] (CSA farms typically sell shares in their produce at the beginning of the season to local people who provide capital and a guaranteed market to the farmer.) However farmers' markets and CSAs comprise less than 5 percent of organic food sales (predominantly fresh fruits and vegetables)^[35] Sales of processed organic foods are growing more rapidly than fresh fruits and vegetables, increasing from 58 percent to 61 percent of total certified organic food sales during the period 2003–2006.^[36]

Another possibly more likely picture of future food production is presented by the emerging concept of food system clusters. As a handful of massive corporations concentrate their ownership both within the various sectors of the food chain and back into the supply chain, food system clusters would create an industry where the food product is passed along from stage to stage, but the major decision makers do not change and seldom does ownership of, or title to, the product change. Starting with the intellectual property rights that governments give to the biotechnology firms, the food product always remains the property of a firm or cluster of firms with close working relationships. The farmer becomes a grower, providing the labor and often some of the capital, but never having clear title to the product as it moves through the food system, and never making the major decisions.

Firms starting to pioneer the concept of a 'gene to supermarket shelf' food system cluster include Evertis, (a new joint venture of existing alliances of former European life science and chemical companies), Zeneca, Dow (Mycogen) and DuPont (Pioneer).^[37]

Two very different pictures of the future: it is up to food consumers to begin talking about the future we want to see.

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Big Pharma

The beginning of 2009 was a record-breaking period for the pharmaceutical industry. During the first quarter of 2009 several deals with a combined value of about \$166 billion were struck – more than 10 times the value of the same quarter in 2008 and well over the \$114 billion total for all of 2008.

The biggest deal was Pfizer's \$64 billion purchase of Wyeth, followed by the Roche Group's \$47 billion purchase of the 44 percent of Genentech it didn't already own, and following close behind, Merck's acquisition of Schering-Plough for \$43 billion. Other notable deals include Novartis' 25 percent stake in Alcon bought for \$11 billion and smaller acquisitions (\$1.4 billion to \$2.1 billion each) by GlaxoSmithKline and Sanofi-Aventis.^[1]

These mergers and acquisitions follow years of industry consolidation: the number of drug companies represented by the trade organization Pharmaceutical Research and Manufacturers of America (PhRMA) has shrunk from over 50 in 1999 to just 12 today.^[2]

Since 1995, 11,207 deals with a total value of \$1,922 billion have been announced in the pharmaceutical industry.^[3]

The Pfizer-Wyeth agreement will create a massive player in the industry, with more than 15 products bringing in \$1 billion each in annual revenue. The company expects \$4 billion in cost savings from the merger, including the shedding of 20,000 jobs.^[4]

Of the top 21 pharma firms that made into the Fortune 500 in 2009, the top 4 (Johnson and Johnson, Pfizer-Wyeth, Abbot Labs and Merck) account for 62 percent in sales.^[5]

As in any cartel, the big players are teaming up to control key drug sectors. In April this year, GlaxoSmithKline and Pfizer announced the creation of a company dedicated to developing HIV medications. The merger gives the new partnership a 19 percent share of the lucrative HIV drug market through a combined portfolio of 11 already-available meds and six pharmaceuticals in development.^[6]

The generics pharmaceutical industry has likewise been furiously consolidating. In late 2008 the world's largest generic pharmaceutical supplier, Israel's Teva, bought the American company Barr Pharmaceuticals for \$7.5bn, while King Pharmaceuticals bought AlphaPharma for \$1.6b.^[7]

These concentrations are producing monopolies in the manufacture of key generic pharmaceuticals. For example, the widely used antibiotic tetracycline, is now produced almost exclusively by Teva and Barr, and the oral contraceptives market is controlled by three key players: Barr, Teva and Watson Pharmaceuticals.^[8]

Consolidation has been occurring throughout the drug supply chain. Three companies now dominate pharmaceutical wholesaling – Cardinal Health Inc., McKesson Corporation and AmerisourceBergen Corporation – which together account for between 90 percent and 95 percent of all revenue within this sector. Since 1980 over 100 buyouts have taken place in an industry valued at \$275bn in 2008, with at least 57 buyouts occurring over the past decade.

And consolidation has likewise been taking place in pharmaceutical retail: US chain drug stores currently account for 41 percent of all prescription sales, with the dominant players being Walgreens and CVS Caremark.^[9]

It is interesting to note how consolidation in one sector drives consolidation elsewhere within the supply chain. For example one of the factors driving consolidation within the generics industry is the price pressure being put on the generic manufacturers by Wal-Mart with its \$4 generic drug prescriptions, and by market giants CVS and Walgreens.^[10]

It is important to remember when viewing these statistics that standard antitrust theory considers a market no longer competitive when the four biggest players control 40 percent of an industry sector.

The blockbuster mergers within Big Pharma are taking place in an industry that until recently saw staggering annual profits: in 2002 the top ten drug companies made a higher profit than the other 490 businesses together on the Fortune 500 list.

Up until 2003, the profit margins for pharmaceutical companies ranked far above all other American industries in average net return, whether as a percentage of sales (18.5 percent), of assets (16.3 percent), or of shareholders' equity (33.2 percent). By comparison, the median net return for all other industries in the Fortune 500 was only 3.3 percent of sales. Even commercial banking was a distant second, at 13.5 percent of sales.^[11]

In 2001 it was estimated that the combined worth of the world's top five drug companies was twice the combined GNP of all sub-Saharan Africa.^[12]

The pharmaceutical industry wasn't always so profitable. From 1960 to 1980, prescription drug sales were fairly static as a percentage of US gross domestic product. Between 1980 and 2000 however, prescription drug sales tripled. The catalyst for this change was a series of laws enacted by Congress.

The first of these, the 1980 Bayh-Dole Act allowed universities and small businesses to patent discoveries coming out of National Institutes of Health (NIH) (the major distributor of tax dollars for medical research) and then to grant exclusive licenses to drug companies. Similar legislation allowed the NIH itself to enter directly into deals with drug companies, transferring NIH discoveries to the pharmaceutical industry. Up until the Bayh-Dole Act taxpayer-financed discoveries had been in the public domain, available to any company that wanted to use them.

Bayh-Dole gave a tremendous boost to drug companies, providing them with publicly funded research into new drugs rather than having to rely on their own research. Pharmaceutical corporations have increasingly come to rely on academia, small biotech startup companies, and the NIH. According to conservative estimates, at least a third of Big Pharma's drugs (typically the most innovative ones) are now licensed from universities or small biotech companies.^[13]

In another Congressional give away, the 1984 Hatch-Waxman Act extended monopoly rights and lengthened the patent life for brand-name drugs. The result is that the patent life of brand-name drugs increased from about eight years in 1980 to about fourteen years in 2000, providing drug companies with billion of extra dollars a year.^[14]

And in 1997 the FTC began allowing drug companies to start marketing their prescription medications directly to consumers (DTC). In 1996, the year before the DTC ruling, drug companies spent \$595 million on DTC advertising. Within a year of the new ruling, DTC spending rose to \$844 million. By 2000, it shot up to \$2.24 billion, and by 2005 it stood at \$4.1 billion - more than \$11 million a day.^[15]

One of the drug classes most widely marketed direct to consumers has been anti-depressants, no doubt playing a role in the doubling of the number of people being prescribed these drugs since 1996. By 2005 over 10 percent of the US population six years and over were receiving anti-depression medication to treat a range of conditions

such as anxiety and other mood disorders – a figure that is likely to have since grown.^[16]

Reliant on publicly funded research and enjoying government mandated monopolies and tax breaks that almost guarantee a profit, the big pharmaceutical companies have turned themselves into vast marketing operations.

In 2005, for example, Pfizer spent nearly two and a half times as much on marketing, advertising, and administration as on R&D (33.1 percent versus 14.5 percent of revenues) and Merck spent almost twice as much on marketing, advertising, and administration as on R&D (32.5 percent versus 17.5 percent of revenues).^[17]

During 2004, the industry spent approximately \$61,000 in promotion per US physician.^[18]

Of the research that is undertaken by big Pharma, about 80 percent of the budget is spent on drugs that tweak an existing popular drug (which the company will then patent), rather than on genuinely innovative drugs that run a greater risk of never getting to market. ^[19] For example, six statins (Lipitor, Mevacor, Zocor, Pravachol, Lescol, and the newest, Crestor) are now marketed to lower cholesterol, all variants of the first drug. Likewise Claritinex, Zoloft and Nexium all appeared just as the patents for almost identical formulas Claritin, Prozac and Prilosec were about to expire.

Of the seventy-eight drugs approved by the FDA in 2002, only seventeen contained new active ingredients, and only seven of these were classified by the FDA as improvements over older drugs.^[20]

In 2007, the FDA approved only 19 new molecular entities and biologics - a smaller number than at any time since 1983.^[21]

Only a handful of truly important drugs have been brought to market in recent years, and these arose mostly out of taxpayer-funded research at academic institutions and the National Institutes of Health (NIH) or from small biotechnology companies.^[22]

Compounding this sparse pipeline is the fact that between 2007 and 2012, the top 50 pharmaceutical companies are facing patent expiries on \$115 billion worth of drugs.^[23]

Pfizer's bid for Wyeth was widely seen as an attempt to boost Pfizer's pipeline in advance of Lipitor losing patent protection in the US in 2011. The cholesterol drug brought the company nearly \$12 billion in revenue in 2008. In all, 38 percent of Pfizer's current sales will face competition from generics by 2013.^[24]

Loosing a monopoly over a blockbuster drug can be catastrophic in an industry whose survival is dependent on this business model. For example ScheringPlough's blockbuster allergy drug, Claritin, brought in a third of that company's revenues before its patent expired in 2002.

As patents begin running out, the big pharmaceutical companies typically raise prices to compensate for future loss of income. For example, before Claritin's patent ran out, Schering-Plough raised prices thirteen times over five years; a cumulative increase of more than 50 percent – over four times the rate of general inflation.^[25]

With such a staggering number of patents about to expire, the US consumer can expect to see drug prices rising ever higher. Americans already pay the highest prices in the world for prescription drugs. Canadians, Europeans, and even citizens of Mexico pay only about one-half to as little as one-tenth the price paid by Americans for the same compounds. Drug companies actually import many of the raw materials used in pharmaceuticals from other countries, meaning that some US medicines are already sourced from countries like Britain and Germany. Prescription drugs are marked up as much as 569,000 percent over the price of the raw materials, with a typical markup in the 30,000 percent - 50,000 percent range. There is no business in the world with more profit built in to the retail price of the product.^[26]

Worldwide sales of prescription drugs was estimated at about \$400 billion in 2002, with the United States accounting for about half: a staggering \$200 billion a year, a figure that is growing at a rate of about 12 percent a year, fuelled in large part by constantly rising drug prices.^[27]

To maintain this level of growth Big Pharma has tentacles that reach deep into Congress and the regulatory and research bodies. “Consulting” agreements offered to federal employees, and to members of FDA advisory committees make both the NIH and FDA subservient to the wishes of the drug companies. Senior NIH scientists (among the highest paid employees in the government) routinely supplement their income by accepting both large consulting fees and stock options from drug companies, an arrangement with the potential to drastically bias their reports on the clinical drug trials taking place within the NIH.^[28]

At the level of Congress and the White House, Big Pharma has consistently fought attempts by the federal government to use its role as bulk purchaser to strike pricing deals. In a recent quid pro quo arrangement, the drug companies agreed to support the current healthcare legislation on the understanding that the Obama White House would bar the government from negotiating lower drug prices – basically the same deal George W. Bush struck in getting the Medicare drug benefit passed. The Obama government has likewise agreed not to pursue Medicare rebates or shift some drugs from Medicare Part B to Medicare Part D, which would cost Big Pharma billions in reduced reimbursements.

And in the Senate, the Health Committee bill gives drug makers 12 years of market exclusivity, five more than the White House proposed.^[29]

Nevertheless in an effort to hedge their bets on the final outcome of the healthcare bill, big Pharma has hiked the prices for many drugs more than 15 percent in the first quarter from a year earlier.^[30]

To demonstrate what a give-away to the drug companies the 2003 Medicare Prescription Drug, Improvement, and Modernization Act has been, a Families

USA study compared the prices paid by Veterans Administration (VA) patients with prices paid under the Part D plan, created by the 2003 Prescription Drug act.

The median difference between the lowest Part D plan price and the lowest VA price is 58 percent, while the median difference between the highest Part D plan price and the VA price is 101 percent.

In one of the most egregious examples, a VA patient will pay \$127 for a years supply of the anti-cholesterol drug Zocor, while a Part D plan patient will pay \$1,486 – a difference of 1,066 percent.^[31]

The lobbying of the US government on behalf of Big Pharma is apparent even at an international level. The United States is the sole country obstructing attempts by the WHO's Intergovernmental Working Group on Public Health to make intellectual property rights for drugs more flexible.^[32]

The symbiotic relationship between Big Pharma and its enablers within the political process – Congress, the White House and the various federal agencies tasked with protecting consumers - looks set to continue.

Footnotes:

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