

CÉCILE PHILIPPE
BARBARA RIPPEL
CARLO STAGNARO
DOMINIC STANDISH
PHILIP STEVENS

ADVERTISING:

FIONA O'KELLY (Executive) advertising@eureporter.co.uk
JAN TALJAARD jan@eureporter.co.uk

Accounts

CHRIS EASTWOOD accounts@eureporter.co.uk

Letters to the Editor: editor@eureporter.co.uk

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5% in 2005 as long as the euro economy and a stronger euro make companies' lives more difficult," he said. The

Exports have so far been the driving force behind the recovery of Europe's large- though a small increase towards the end of 2005 might be possible.

Why Drug Advertising Does Not Mean Higher Prices

BY CÉCILE PHILIPPE

Dutch Socialist MEP Dorette Corbey, a member of the European Parliament's Environment, Public Health and Food Safety Committee, is firmly opposed to liberalising consumer information in terms of health. In addition to ethical concerns, she quotes an economic argument frequently raised against direct to consumer advertising (DTC), i.e. this would raise retail prices. However, no such link exists between advertising/information and consumer prices of the relevant goods.

Classical economic analysis argues that the marketing and advertising costs of a painkiller, such as doliprane or dafalgane, are added to production costs (in essence, research, development and manufacturing costs). At the end of the production process, the price hike is a fact. But this reasoning amounts to considering that the value of a final good (i.e. the price of the drug) is composed of a series of costs occurring during the various stages of manufacturing. Hence, the price of a product would be the result of a chain of value-added stages proceeding from the top to the bottom, from the factors of production towards a final product.

This is a common belief (in particular in the debate on outsourcing) which leads to thinking that if a drug has indeed a value for the patient, it is because of its basic components: paracetamol, citric acid, carbon, etc.

However, nothing could be further from reality, for if we adopt this thinking it would be impossible to determine the value or the price of goods which are given by nature, e.g. land, fruits growing in the wild-

ness, and so forth. How is it that an individual may pick an apple from a tree or grow a piece of land? The previous argument does not answer this, because it ignores the upgrading of goods that are not the outcome of combining the various factors of production.

Taking into account things that have a value for us, e.g. ecologically grown apples or wild mulberries, we realise that this value corresponds to an individual desire, and not the other way round. Hence, the entrepreneur who realises that he is not the only one to like apples may imagine ways to produce these on a larger scale, which will lead him to invest in land, work, tools and fertiliser. Therefore, these elements will draw their value from the fact that the apples will have a similar value to the consumer, once they have been produced and brought to market.

In the same vein, if companies spend a portion of their resources on advertising, it is not because this has an intrinsic value, but because the final product – be it Viagra or the anti-retroviral Epzicom – has a value to the consumer.

The price is a ratio representing the value of goods exchanged on a market. It is therefore neither logical nor realistic to cling to the idea (shared by both the Commission and the European Parliament) that advertising budgets are bound to increase the price of drugs, nor indeed of any other product. This brief lesson in economics may prove useful to the new Commissioner Markos Kyprianou, whose training was exclusively in law.

Cécile Philippe is director of the Institut Economique Molinari