

How not to turn to ‘welfare’

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ABOUT a month ago, social media was swamped with news of a raid that turned up 48 million tablets of Panadol, a medicine experiencing severe shortages across Pakistan. Everyone seemed aghast at this ‘hoarding’ to create artificial shortages. Demand for the strictest punishment was advocated vociferously.

Amidst all this cacophony, a tiny minority (including yours truly) tried to reason otherwise — that it was more of an attempt to divert public anger over medicine shortages away from the government to the industry. For one, the stock (which was far lower than what was reported) was worth hardly a few days of the total Panadol production in a month. Companies, traditionally (and legally) keep a bit of their stock in storage, to be sent out as new stock comes in. The minority view stands vindicated. Recently, the government admitted that the confiscated stock had nothing to do with hoarding and that there was no illegality involved.

But the damage has been done. The public anger has shifted towards the industry as the source of shortages. This, again, has helped the government sidestep the issue of how adverse regulations have harmed the pharmaceutical industry in many ways. The most reprehensible part is that all this has been carried out over time by the government under the garb of ‘welfare’. In all my research on Pakistan’s pharmaceutical industry, one thing that stands out is the extent of the damage these adverse regulations have caused; it is reflected in various outcomes such as persistent shortages, low quality, low FDI and black-market activities, etc. When Covid-19 struck, I asked in an article for this paper (‘Economics of Vaccines’) why, despite more than 700 pharmaceutical firms, hardly any vaccine was being manufactured in Pakistan.

No regulation has proved more counterproductive than the controlled pricing of medicines. Research unequivocally concludes that this particular regulation is the main reason why many adverse outcomes beset the industry and consumers. The argument that controlling prices would ensure easier access and affordability, especially for the poor, is negated even by the government’s own statistics. The National Health Account data documents a rise in the percentage of expenses on medicines (as total expenses on health) despite strict price controls. From around 24 per cent in the early 2000s, the percentage stood above 50pc in 2018, clearly reflecting that attempts to control expenses on medicines through price fixing have failed (Regulating the Pharmaceutical Industry: An analysis of DRAP, PIDE).

There is a need to end the romance with ‘welfare’ through controlling the price of medicines.

Note that this was the time when the infamous ‘price freeze’ policy was in action, from 2001 to 2013. In that period, hardly any price increase was granted despite a substantial increase in the cost of production. One outcome was that many medicines stopped being produced given the financial non-feasibility. So the argument that price controls lead to ‘welfare’ lies in tatters, even if one were to look

at the government's own statistics. But one very important piece of the puzzle had remained unanswered: the extent of monetary damage to consumers (which affects their welfare) due to medicine shortages, perpetuated mostly by controlled pricing. That kind of an estimate would have debunked the controlled pricing myth even more forcefully.

Astonishingly though, for a country that has been experiencing medicine shortages for decades, no researcher had tried to estimate any such figure. Part of the reason for shying away from this topic were the immense practical difficulties: there exists no central database that documents medicine shortages, and such an exercise requires extensive surveys and efforts in terms of garnering information from hospitals, pharmacies, retailers, regulators and industry (the types of drugs experiencing shortages, the difference between the regular and black-market price, reasons leading to shortages, etc) that could then allow a probable estimate. Thus, this issue remained unsettled for long. But not anymore.

A marvellous research effort by a PIDE student, Kainat Yousuf, has finally settled this query. In her wide-ranging MPhil thesis (Welfare Impact of Generic Drug Shortages in Pakistan), that covers both quantitative and qualitative aspects of the issue, she has managed to build a database of medicines in short supply. The total came to 278 (over the selected time frame). A further distinction was made based on the medicines that have substitutes and those that did not have a substitute (or a reasonable substitute). The final tally came to 50 medicines, which were used for monetary estimation.

To summarise, she found that approximately Rs80 million were extracted from consumers due to the persistent shortages of these 50 medicines in the last five years alone. Imagine the quantum of losses if the estimates extended to all 278 medicines.

The aim of this piece is to show how lopsided (and illogical) the government's conception of 'welfare' is. Clearly, in this case, there are no two arguments about how this misconceived notion of welfare has inflicted tremendous harm on consumers. During the qualitative survey, doctors confided that the unavailability of selected medicines had led to loss of life, besides causing mental agony to the family of patients in severe need of medicines.

But rest assured, nothing will change, Recently, the prime minister and his cabinet rejected a summary allowing a few rupees increase in the price of Panadol, apparently under the misguided notion that it will 'hurt the welfare of the masses'. What is not considered (or is discarded altogether) is that costs of production have gone through the roof. And it somehow never occurs to those who govern that the loss of welfare by not allowing price increases is manifold; from paying astronomical black-market prices, to seeing the market flooded with substandard, less effective copies.

To end the debilitating shortages of medicines, there is a need to end this ill-informed romance with 'welfare' through price controls. There is absolutely no need for the cabinet to approve price increases because it makes the issue political. Also, can the press please stop sensationalising this issue? Human life is priceless and there's no need to cause a commotion over a few rupees' increase that can save lives.

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