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## CLASSROOM EDITION

### Chapter 7 Market Structures

This article from the January 2002 *Wall Street Journal Classroom Edition* looks at a new breed of health organizations. These organizations are using market forces to spur the development of vaccines to treat diseases common to poor nations.

“A Healthy Marketplace” by *Wall Street Journal* Staff Reporter Vanessa Fuhrmans illustrates how markets sometimes fail to allocate scarce resources efficiently.

Before reading the article below, you may want to look up the following terms: *catalysts, daunting, disputes, eradicated, goodwill, incentive, lucrative, recoup, stipulation, and virulent.*

**W**hy is the drug industry ignoring some of the world’s most common and deadly diseases?

The answer is money. Though medicines and vaccines against these diseases, which include tuberculosis and malaria, could save millions of lives in poor countries, drug companies haven’t pursued them aggressively because there isn’t much potential to recoup research costs, which can reach hundreds of millions of dollars, and make a profit. The same dilemma stands in the way of investing in treatments for diseases caused by bioterrorism agents: The uncertain market discourages private investment.

“It’s a market failure, plain and simple,” says Bernard Pecoul, director of the Access to Essential Medicines Campaign for the French humanitarian group Doctors Without Borders. “Market forces are not driving new research into these drugs.”

But some health organizations believe they can. Over the past year, groups such as Medicines for Malaria Venture, International AIDS Vaccine Initiative and the Global Alliance for TB Drug Development have become catalysts in the hunt for new treatments for neglected diseases that afflict poor countries.

Backed by private and public dollars, these ventures are adopting some of the business tools used

by private industry to develop medicines. Calling themselves “virtual drug makers,” the groups use their money to pay outside labs and companies to conduct vaccine research. Once they reach their goal of finding treatments, these groups will use their control of the patent and development rights to ensure access to the medicines in poor countries at affordable prices.

For instance, the International AIDS Vaccine Initiative, backed by the Bill and Melinda Gates Foundation, gives money to vaccine makers with this stipulation: The can keep the patent and licensing rights to any AIDS vaccine they develop with the donated funds—and charge high prices in rich countries—provided they sell the vaccine affordably in poor countries.

If successful, these ventures could provide a model for how to attack a number of public health crises in developing countries, while avoiding the kinds of patent-rights disputes that have erupted over AIDS drugs.

The alliance’s mission is simple but daunting. By the end of the decade, it wants to bring a new tuberculosis medicine to market that not only fights new, drug-resistant strains of the disease but also cuts the current six-month treatment course by two-thirds. Nearly eradicated in many parts of the world in the 1940s, tuberculosis has roared back at alarming

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rates in more virulent forms, often together with AIDS. This year alone, the World Health Organization expects 8.4 million people to develop the disease and two million to die of it, making it the world’s leading cause of death from a single infectious disease.

“We’re not some research group that says, ‘Let’s fund this and that and hope it does some good,’” says Dr. Freire, whose group has received \$40 million in start-up money from the Gates and Rockefeller foundations. “We’ve got a laser-sharp focus. We need a drug by 2010.”

The alliance is in negotiations with a handful of academic laboratories, drug makers and public institutes for five separate drug compounds. Just as a drug maker would do, the alliance has conducted an economic analysis of the market for tuberculosis treatments. The study contains some surprising results.

For one, it puts the current market at \$450 million, compared with conventional estimates of less than \$150 million—and projects the market will rise to \$700 million by 2010. Because a new, two-month treatment would lower the cost of a single regimen and raise treatment-completion rates, such a medicine likely would capture at least half of the

market, the study estimates. At the same time, the study calculates the cost of developing such a drug at just \$100 million, including the costs of failures, though not discovery costs.

“Industry wants something to show for what they’re putting up and this finds some focus,” says John Horton, director of clinical strategy for developing world diseases at GlaxoSmithKline PLC, of Research Triangle Park, N.C., and an adviser to the alliance.

“Companies are used to assessing blockbusters, where, if it works, the returns are apparent,” he adds. “This is much different.”

Still, many in the pharmaceutical industry say such figures will do little to persuade companies to become involved. “My feeling is that if you have to make a deep study to find if there is a market, there probably isn’t,” says Daniel Vasella, chief executive of Novartis, which recently announced plans to set up a tropical-disease research institute in Singapore. Rather, he says, companies will commit to such research to create goodwill and because they can invest profits from more lucrative markets.

“If you’re going to enter markets for the payback,” he says, “TB isn’t one of them.”

## QUESTIONS FOR DISCUSSION

1. Why is the lack of vaccines for diseases common to poor countries an example of a market failure?

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2. **Analyzing Information** How do these new ventures use features of the free enterprise system?

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3. **Predicting Consequences** Do you think that these new ventures will succeed in promoting the discovery of new vaccines for neglected diseases? Why or why not?

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