
Valeant and Limitless Greed

Bethany McLean's dissections of corporate disaster are always worth reading, [The Valeant Meltdown and Wall Street's Major Drug Problem](#) being no exception.

Human greed clearly knows few bounds. It's shocking. Our first reaction is to wonder about the limits of that greed. But it's not worth wasting time on such thoughts—to think of the way the world should be rather than how it is. The more useful starting point for any thought experiment on the matter is to assume that some percentage of the population will do just about anything for an incremental dollar of easy profit. It's a sound bet, and now we're actually working with human nature rather than wishing it was different.

Capitalism at its best works not because ethics classes convince the greediest to act with restraint, nor even by excluding the greediest from the process, although some of that does and should happen. Rather, robust systems – competitive, regulatory, media and others—work to channel that greed in ways that provide productive outcomes for customers and everyone else affected. A bad system most encourages the very greediest, a great system encourages the most useful and/or innovative in a way that benefits everyone.

As the Valeant scandal shows, the US health system is a long, long way from capitalism at its best. It's a disgrace. But a handful of well-designed systemic changes would have saved much heartache, so much so that just about any know-nothing could design a better system. Here are a few suggestions:

1. The FDA process seemingly does little to encourage the potential for generics to compete. As per the suggestion of "J" (a character in the article), if the price of a generic drug rises, say, more than 3x the inflation rate, the F.D.A. should add resources and fast-track the approval process for competition. Really, can it be that hard to approve a generic alternative to a drug that's already being sold and consumed? They're identical! It's essential if players are otherwise going to charge \$1,000 for something that costs mere dollars to produce and should sell for \$10.
2. Change the co-pay system. This was an essential cog in the wheel of the Valeant profit machine. Take that illustrative but fictional \$1,000 drug highlighted above, and let's say the co-pay was \$200. The customer generally pays \$200, the insurance company the remaining \$800. That system was set up to give the customer a financial incentive against overuse or unnecessary use of drugs, and to encourage shopping around and use of available alternatives. But Valeant often reimbursed all or part of the co-pay amount to the consumer, ameliorating the incentive for the consumer to ask questions, while still allowing the company to net \$800 for a drug that should sell for \$10. This system could be changed through regulatory intervention—banning co-pay reimbursement from the private system (much as Medicare already does in the public system) or through wholesale rejection by insurance companies of such set ups (as is happening currently).

There, two changes put together by any idiot (me) that would have resulted in much better outcomes in US health without questioning the foundations of the capitalistic system. There

seems to be plenty more low-hanging fruit in this story, such as changes to laws on [drug companies owning/controlling specialty pharmacy businesses like Philidor](#) and extreme punishments for anyone caught committing fraud by forging doctor's signatures or instructions on prescriptions, an accusation leveled at Valeant subsidiaries that went unmentioned in McLean's article. But I don't want to step outside my scant knowledge of the situation. Plenty of insightful stuff has been written elsewhere, the [Bronte Capital blog](#) and the [Southern Investigative Reporting Foundation](#) being fine starting points for more reading.

The point of this post wasn't to add any specific insight to the Valeant story but rather to remind that we can never hope to successfully outlaw the limits of human greed. Proof of that comes from places like North Korea and Cuba where the destruction of capitalism resulted in something rather short of utopia. Greed is a human constant—channelling it effectively and putting it to productive uses is usually the best way forward.