

Beyond Philanthropy Lies Compulsion

JIM HOGGETT

*'Corporate social responsibility is about more than philanthropy. It is about the role that global companies can and should play in addressing some of the deep inequalities between rich and poor countries.'*¹

ALTHOUGH the annual flow of official aid to poor countries remains high (US\$68 billion in 2001), the level has tended to decline. Donor fatigue combined with disappointment at perceived waste and limited results are factors. But the demands remain strong for relief of famine and newer crises such as the AIDS epidemic.

To sustain the flow, non-government organizations (NGOs) have looked for new sources in the private sector. The concept of corporate social responsibility (CSR) is providing a convenient link and support in some campaigns.

CSR has recently been called in support of many causes. Environmental, social, labour and ethical campaigners have each asserted that CSR should be applied to their special interest. So, too, with health and overseas aid. These two causes have been neatly combined in the campaign by Oxfam, Save the Children and others to provide cheap medicines to poor countries.

THE AMBIT CLAIM

The proposals put forward by Oxfam and others include:

- Global price-control to ensure cheaper drugs and vaccines in poor countries.
- Abandonment of company patent rights in those countries.
- Increased research and development into medicines of importance to those countries.
- Supervision of drug trials by the World Health Organisation (WHO).

Each of these demands involves a substantial direct financial sacrifice by

each major pharmaceutical company.

In parallel, pharmaceutical companies would be required to cease lobbying, and industrial countries would cease backing them. NGOs would be given a seat at the table and a say in policy.

This is only an outline sketch of a much more numerous and detailed schedule of demands which are being pressed upon companies, governments and international institutions.

The campaign stems from the continuing high death rates from preventable infectious diseases in poor countries. NGOs claim that cheap medicines are not commodities, but a right, and that it is the responsibility of pharmaceutical companies to supply that right.²

In the first assertion they are supported by the WHO which has declared that

Essential drugs (should) be available at all times in adequate amounts and in appropriate dosage forms and at a price that individuals and the community can afford.

These are sweeping assertions. They are partly intended to be met by governments. But they are also an attempt to create in poor countries an element of the public health system of the developed world at the expense of a narrow corporate segment.

Furthermore, as implied by the quotation at the head of this article, the purpose is much grander than cheap medicines. It requires that corporations enrol in the broader campaign of global redistribution of wealth and income. Concurrently, the NGOs would enhance their role and power in the process.

For corporations, 'beyond philanthropy' there lies a compulsory regime of transfers devised and supervised by largely unaccountable bodies.

NOT ALL CHANGE IS PROGRESS

At face value the proposals are a deep extension of CSR in a narrow business sector to meet a universal need.

The *equity* of this is more than questionable. The burden of sacrifice would fall on the shareholders in the pharmaceutical companies. These are a small segment of society. The argument that they enjoy guaranteed exceptional returns is unlikely to be sustained. They are just as likely to see bad times as other sectors (see recent developments at Bristol/Myers Squibb, for example). They are also under pressure from less well-off consumers in the US where they derive much of the margin which covers cheaper prices elsewhere. Big margins are eroded eventually in the market.

The needs of poorer countries are numerous. They include pressing matters such as food and clean water which, if solved, would pre-empt much of the need for medicines. Transfers for these needs are generally made through government agencies. Any subsidy is met by the community as a whole in the donor country. French farmers are not compelled to sell their products directly at a discount to Africans. For that matter, nor are Australians.

The *efficiency* of the proposals is also suspect. Price controls based upon 'affordability' could not allow for the full cost of the product. Even if it were possible to maintain a sustained international two-price system (extremely doubtful), there would be a strong incentive to minimize supply in the much lower priced market. Lower

prices have been reliably found to reduce supply.

Such a system would also specifically discourage companies from investing in new drugs of the kind needed in poor countries.

Price controls have been almost universally inequitable, inefficient and doomed to failure.

The proposal to abandon the patent system so far as it applies to medicines in the bulk of the world's countries has far-reaching *structural consequences*. Intellectual property rights have been discussed intensively at the World Trade Organisation. Those who have the rights naturally don't want to give them away.

But it goes deeper than that. The system exists because it works. It provides the incentive to do expensive and risky research—the sort of research that produces wonder drugs. Only two in nine vaccines developed actually make it to market. It is estimated that 50 per cent of the final cost is risk elements (R & D, trials, demand).³ If anyone can steal ideas, then few will go to the trouble and expense of developing them.

The *bureaucratic apparatus* required to direct this brave new world of cheap drugs should give serious pause to those potentially involved. The process would involve 'the global South', public interest groups, governments and international organizations. Gridlock is inevitable, even though the proposed exclusion of the manufacturers simplifies matters for everyone else.

It is sufficient to consider how the tower of Babel described above would deal with setting any price, let alone the effective distribution to the masses that could then afford it. In this process, the unit price would inevitably be driven down to a common point of agreement close to zero. The costs of this ineffective apparatus would be inversely proportional to its efficiency. They would be enormous, both for the continuing consultative processes and the global bureaucratic support.

The tragedy of proposals of this kind are that they are both costly and self-defeating. They also cause signifi-

cant collateral damage and are almost impossible to reverse.

'Beyond philanthropy' lies inequity and waste.

THE LIMITS OF CSR

Corporate social responsibility must have limits to be meaningful. Many NGOs and others who should know better have wildly unrealistic expectations of the concept.

Unfortunately, some governments, including our own, have given weight to the expectations by making generalized exhortations for corporations to 'do more' for the community. Some 'ethical' funds such as Calpers, the Californian public sector pension fund, have put pressure on pharmaceutical manufacturers.

Corporations do make significant contributions to community causes well beyond their legal obligations. Pharmaceutical companies supply medicines at discounted prices, fund joint projects with public entities and have abridged some patent rights. But all this is within a voluntary framework which allows the company to protect its vital interests.

In the end, the principal responsibility of the company is to its owners and this is discharged by making profits. If it subordinates this priority to an outside interest it fails to discharge its trust. Ultimately, it fails to attract and generate the resources for survival.

More broadly, companies are part of a relatively free market system that has a proven capacity to create wealth and material well-being. Alternative, publicly supervised economic systems have created poverty without equity. CSR should not be used as a cover to fund the creation of a mandated private aid programme or to knock away some of the crucial props of the free market system.

THERE ARE MORE EFFECTIVE RESPONSES

None of this is to imply that there is not a huge problem with disease. Many countries in the developing world have serious endemic diseases and weak public health systems.

Some answers have been suggested:

- Follow the example of successful countries. Uganda has halved the incidence of AIDS with a broad-based public health programme and existing cheap drugs.
- Make use of available generics which governments of developing countries can and do licence. Generics produced in Asia are generally a fraction of the price in the developed world. These have not always been promptly adopted.
- Continue the effort through international agencies. WHO was created for just the purposes underlying the 'beyond philanthropy' proposals. They may also be able to implement some of the strategies to reduce the risk of developing medicines for an uncertain market.
- Work through governments. They can at least ensure a measure of equitable burden-sharing and make some attempt at supervision. They also already subsidize research in some countries. They may be able to reduce the enormous costs of public liability litigation.

Beyond the band-aid of philanthropy as interpreted by many NGOs are the larger challenges of political and social stability. These are especially relevant in the poorest countries where endemic disease is hardest to tackle. Any proposal for reform that ignores the necessity for effective and uncorrupted distribution of relief in the form of medicines cannot be taken seriously.

NOTES

- 1 Report by Oxfam, Save the Children and VSO, 'Beyond Philanthropy', 2002.
- 2 Oxfam, World Health Assembly briefing paper, 11 May 2002.
- 3 *McKinsey Quarterly*, 2001, No 4, 'Vaccines where they're needed'.

Jim Hoggett is a Senior Fellow at the Institute of Public Affairs.

I P A