Toronto's biopharmaceutical cluster suffers from poor demand conditions.

The problem? Government purchases squelch innovation

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One of Ontario's significant assets is Toronto's biopharmaceutical cluster. The industry is crucial to the province's human and capital resources available to it and in employment terms it has become the eighth-largest in North America. Nevertheless, the cluster represents an unfortunate paradox: profitability and prosperity. Despite its impressive factor conditions, the cluster has not been able to sustain the growth of many of today's most successful companies. This is partly due to the presence of large corporations in the cluster, which provide a significant source of demand for products and services. However, the cluster is also facing other challenges, such as the increasing costs of doing business and the lack of access to adequate funding for innovation. As a result, the cluster's growth has been hampered, and the benefits it could provide for the province are not being realized.

Sophisticated Demand

Healthy Competition

9% of its total expenditures. While the private sector (individuals, insurers and employers) accounts for the majority of drug sales in Canada, the public buyer, through regulation, controls the reimbursement price. For example, in Ontario a price freeze has been in effect since 1994. So even though many buyers exist — and they have every reason to be frustrated — there are no strong incentives for the government to change the system. The government is thus left to the mercy of the marketplace.

On a per capita basis, Ontarians spend about three-quarters of their U.S. counterparts on drugs ($521 in Ontario v. $679 in the United States). While many applaud this, it represents a public-policy choice. We have lower prices, but the lack of a sophisticated buying process means a loss of value. The government itself is responsible for the entrenched behavior. In Ontario the public buyer is the process — one with multiple buyers who are both demanding and sophisticated as a result of the pressure placed upon them by the end consumer, who is more educated and has multiple choices of health care providers and a system that is less re-