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**Private Interests and Public Money:
The State Provision of Medicines in New Zealand
1938-1986**

A thesis presented in fulfilment of the requirements of the degree of
Doctor of Philosophy at Massey University

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Abstract

Provision for free medicines was one aspect of the universal health service outlined in Part III of Labour's Social Security Act 1938. The official arrangements made during the next three years to supply medicines under the Pharmaceutical Benefits Scheme were intended to benefit the ill, but also protected the interests of doctors and pharmacists. The Government's introduction of these benefits coincided with dramatic advances in organic chemistry and the subsequent development of synthetic drugs in Europe and the United States. These events transformed the pharmaceutical industry from a commodity business to a sophisticated international industry producing mainly synthetic, mass-produced medicines, well protected by patents. While no government in the early 1940s could have guessed at the cost of providing such products, no government committed to a public health service could deny these products once they were commercially available. Pharmaceutical benefits quickly became a crucial aspect of patients' rights to free medical care in general but, at the same time, represented income and profit to pharmacists, drug manufacturers and wholesalers, and an important aspect of doctors' professional and economic status. This tension between state commitments and private interests, still unresolved, is the central theme of this history.

Through its control of access to the New Zealand market, the Department of Health was in theory in a strong position to bargain with local producers over drug prices. But in practice it was powerless to confront individual companies which held the patents on behalf of their overseas parent companies. Indeed the policies of the Department of Industries and Commerce were crucial in promoting the prosperity and profits of this small local pharmaceutical industry so as to guarantee access to paid employment and conserve precious foreign exchange. New Zealand was not alone in grappling with such problems and conflicts of interest. Governments in the United Kingdom, the United States, Canada and Australia all had great difficulty controlling doctors' prescribing, and also had ambivalent aims when bargaining with local pharmaceutical manufacturers and importers.

This thesis contributes to many studies on collaboration and compromise in government policy. It vividly demonstrates Heclo and Wildavsky's claim that governments operate as a federation of departments each linked to client groups. More importantly, this New Zealand history of the state provision of medicines extends and modifies British, Canadian, United States and Australian literature on the politics of national health services. Because discussion of state-funded and state-organised prescription medicines schemes in these studies is dominated by the politics of the medical profession, pharmaceutical companies and pharmacists are often only a shadowy presence. This thesis, for the first time, brings together the history of the medicines themselves, and the way in which they came to mean different things to each different provider - to doctors, drug companies, pharmacists and the state itself. An understanding of the history of this one aspect of government health services also enriches our understanding of the wider history of the New Zealand welfare state.

Preface

When working on a history of Imperial Chemical Industries in London more than twenty years ago, I began to understand that, because of their industrial strength, certain firms could play a significant role in a national economy, and so form close ties with government departments. A key characteristic of such firms, of which ICI was a striking example even in the 1930s, was their local and international production of certain significant commodities. I spent only a short time researching ICI's war-time production of the anti-malarial drugs Mepacrine and Pamaquin. However, I could see that, although pharmaceuticals were undoubtedly chemicals, they seemed to be a commodity like no other. Furthermore, from studying the history of ICI's elaborate trading agreements with other major chemical producers in Europe and the United States, such as I.G. Farben and Du Pont, I could see that cartels had a long history in the chemical industry and could be a powerful force for holding prices at a certain level. Altogether, I remember thinking that one day it would be interesting to find out more about the history of medicines, and about the relationships of major producers with each other and with national governments. It was not until much later, while thinking about states and hospitals, that I began also to think about the intractable problems which confront governments when providing health services. Examining the history of the state provision medicines in New Zealand seemed to offer the prospect of bringing together, in one story, the history of the medicines themselves as well as the way in which these products came to mean such different things to different providers - that is, doctors, drug companies, pharmacists and the state itself.

This study is based mainly on the records of the former Department of Health and the Department of Industries and Commerce, subsequently Trade and Industry, the Ministry of Commerce and the Commerce Commission. These files are scattered in small groups arranged broadly by departmental function, for example the administration of social security pharmaceutical benefits by the Department of Health, or industry development and price control by the Department of Industries and Commerce. These files, though government archives, contained extensive

correspondence, submissions and reports on pharmaceutical manufacture, distribution and sales. I also found much important material on official inquiries, in particular by the 1938 National Health and Superannuation Select Committee, and by the Public Expenditure Committee in 1966-1967, stored in Legislative Department files. I also searched a small number of files of the Social Security Department and Inland Revenue, for records of the early administration of pharmaceutical benefits and for possible study of transfer pricing respectively. Because some aspects of this history are by no means unique to New Zealand, it has been enriched by the study of the records of official inquiries on drug costs in the United Kingdom, the United States, Canada and Australia.

A preface is also an opportunity to thank those whose ideas, advice and efforts contributed to this work. My chief supervisor, Professor Barrie Macdonald, maintained a good balance between direction of the research, and making clear all the time that it was under my own management. Thanks to him, I never lost a sense of momentum, a certainty that somehow I would eventually complete the project and, above all, a belief that it was really worthwhile. My other supervisors have been Geoff Fougere of Canterbury University, and Professor Nancy Kinross and, in the last two years, Dr David Thomson, both of Massey University. Because of his knowledge of pharmaceuticals in particular, and the problems of state health care schemes in general, Geoff Fougere's advice has helped in several ways to sharpen the major arguments of the thesis. Nan Kinross, with her personal knowledge of the workings of the Department of Health over many years, was able to make valuable comments on drafts of the thesis. I also benefited from David Thomson's knowledge of the history of the making and the dismantling of the welfare state in New Zealand.

I must acknowledge the vital assistance of a period of full-time work in 1992 on this thesis, made possible by a Massey University Research Award for Academic Women. I wish to thank Basil Poff for his help and encouragement over many years, Dr Pauline Norris for fascinating conversations about the history of pharmacists and dispensing under the Pharmaceutical Benefits Scheme, and Dr Jan Rogers for

fortifying advice in general. I would like to thank Dr Mervyn Probine for reading and commenting on drafts of several chapters, in particular Chapter 9. Tim Jackson helped me to clarify several points to do with patents. I am grateful to colleagues working in related overseas literature for advice on relevant material. Several people kindly granted me interviews. I am very grateful to Dr Tom Hayes, Ross Martin, Professor Michael Cooper, Peter Graham, Harry Burton, Cliff Beard, Sally Porter, Ken Swann, Jim Mauger and Ross Sanderson for talking to me and offering helpful insights on many complex issues.

I have benefited greatly from the decision by the Ministry of Commerce to make available in National Archives Auckland Regional Office, files recording the policy and practices of the Department of Trade and Industry on medicines price control during the early 1980s. I must acknowledge the polite and indispensable help of archivists at National Archives Head Office in Wellington, and at the Regional Office in Auckland. My husband Michael, whose father was a pharmacist in England for more than fifty years, managed never to look bored at the prospect of yet another discussion about prescription medicines. I thank him, each of our children, Clare, Miranda, Adrian and John, and also my mother, for their help in many different ways.

After a general introduction in Chapter 1, this study follows a more or less chronological path from the 1930s to the end of the 1980s. It weaves together the history of the administration of medicines by the Department of Health and the Department of Industries and Commerce. However, most chapters are dominated by discussion of the operations of only one department. Chapter 2 analyses the background to the eventual introduction of pharmaceutical benefits by the first Labour Government in May 1941, more than two years after the passing of the Social Security Act. Because an understanding of the structure and particular features of the world market for prescription medicines is crucial for the whole of the remainder of the thesis, Chapter 3 breaks into this New Zealand history to set out the main events in the growth of the pharmaceutical industry from the 1930s.

In Chapter 4 we turn back to the local scene, and the problems of operating the new Pharmaceutical Benefits Scheme under the compromises worked out by Labour in 1941. Chapter 5, Supplying the New Zealand Market, takes up the story of Industries and Commerce administration of government policy on local industry expansion, mainly through import restrictions. In this way, it traces the origins of a small-scale local pharmaceutical industry, owned and controlled by parent companies based in Europe and the United States. Chapter 6 discusses the establishment and operation of almost independent systems of government 'price control' of medicines - through Industries and Commerce cost-plus price 'stabilisation' of the economy, and through Department of Health negotiation of Drug Tariff medicine prices.

Some aspects of the history so far are re-examined in Chapter 7 through an analysis of all major official inquiries on drug costs instituted by New Zealand governments from the 1940s to the late 1960s. A discussion of the main conclusions of official inquiries on drug costs under national health care programmes in the United States, Canada, the United Kingdom and Australia shows how the New Zealand government faced similar problems as a provider of prescription medicines, and had similar conflicting interests as a sponsor and customer of local pharmaceutical producers. This chapter serves to emphasise the repetitive, going-nowhere nature of debates about pharmaceutical benefits. Chapter 8 takes the story forward through the 1970s and early 1980s; it consolidates the argument set out in the last few chapters about the unwillingness or inability of governments to change the status quo on pharmaceutical benefits. Chapter 9 sets the Commerce Act 1986 in the context of the 'reforms' of the fourth Labour Government and shows that, although important elements of the long-established administration of prescription medicines were changed under this legislation, the interests of professional and commercial providers remained the same.

Abbreviations

AJHR	Appendices to the Journals of the House of Representatives
NZPD	New Zealand Parliamentary Debates
NZOYB	New Zealand Yearbook