

Do Financial Markets Support Innovation or Inequity in the Biotech Drug Development Process?

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Abstract

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A depiction of business models in European and US biopharmaceuticals offers the possibility to assess the extent to which the combination of government-funded expenditures and speculative stock markets support or undermine the drug development process. The theoretical framework for this analysis is Lazonick's theory of innovative enterprise with its focus on strategic control, financial commitment, and organizational integration as social conditions for generating innovation, i.e., higher quality, lower cost products at prevailing factor prices.

In the project of which this paper is a contribution, we ask the following questions concerning the financing of European and US biopharmaceutical firms:

- How important have the government-funded knowledge base and government subsidies been in financing the drug development process?
- To what extent has the equity finance that has flowed into the biotech industry actually funded drug development?
- If this equity finance did not fund innovation, then how was it used and where did it go? Put differently, what is the relation between value creation and value extraction in a biopharmaceutical firm?

First, we present a methodology based on case-study research for addressing these questions. In the following section we summarize evidence from four case studies – two of companies in the United States and two on Europe. The material that we present shows the feasibility of doing the types of case-study research that can provide a foundation for asking the innovation/inequity questions. In the conclusion, we draw some preliminary observations concerning the types of answers that one can derive from our case-study approach.