

Drug price transparency bill will not lower Rx costs

By David Beier

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Why is drug price transparency legislation like the wolf in “Little Red Riding Hood”? It was because the wolf was pretending to be something he was not. Equally, there is state legislation that is pretending to be about transparency in drug pricing when it is really about limiting the profitability of biotech firms. That kind of government control would deter investment in new and innovative biopharmaceutical treatments.

Under a [bill introduced](#) by state Sen. Ed Hernandez, D-West Covina (Los Angeles County), drug companies would be required to disclose their prices and offer detailed data about their cost. According to its supporters, the purported transparency [SB17](#) requires is supposed to expose that drug company spending on an individual drug cannot justify the price.

This assumption fundamentally misunderstands the drug development and financing process.

First, drug prices are not set to compensate for the cost of developing a single drug. To get the complete picture, one needs to consider the larger biomedical innovation ecosystem, where 90 percent of [drug development programs fail](#) — and 90 percent of biopharmaceutical companies [are unprofitable](#).

Second, price is most often a reflection of the value of the medicine to patients, the health care system and society overall.

Too many forget that the pharmaceutical industry is not just large companies like Pfizer and Lilly, but includes hundreds of small startups, many in California, that employ more than 200,000 Californians in high-paying jobs. All of these life science firms and investors know that time on the market is limited by the duration of their patent.

These firms also must prove their products are “worth it” in comparison to the alternative medicines that can be prescribed for the same disease or condition. And despite all the media attention on the drug industry and its list prices, recent research clearly shows that brand drugmakers receive less than 47 percent of the money spent on drugs in this country. Most of the money goes to middlemen, insurers and the government (in the form of fees, discounts and rebates) or to generic drugmakers, which largely control the market.

The proposed legislation arises from legitimate concerns about patient access to medicine, but it offers false hope instead of realistic solutions. For example, its proponents point to problems that have arisen from dramatic price increases for some drugs, but without noting that those have largely involved generic drugs, not the innovative cures most threatened by the bill.

These proponents also fail to mention that the approval of competing generic drugs can be accomplished by putting such drugs at the front of the certification line at the Food and Drug Administration.

The bill’s sponsors also express concern about rising health insurance premiums. The only way to address premiums is to address spending on doctors and hospitals — which constitutes more than 52 percent of health spending — rather than targeting the 16 percent of the health care dollar spent on drugs.

For all of these reasons, this legislation is unlikely to result in lower drug prices. But it is highly likely it could drive down investment in new companies, reduce employment and slow development of new cures and treatments. Why? Because sophisticated private investors — who provide the bulk of the money for California’s vast and growing network of entrepreneurial biotech startups — will see this transparency drive as a stalking horse for government limits on the few successes that arise from biomedical research.

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