

THE WALL STREET JOURNAL.

June 4, 2017

Opinion

How to Make Medicine More Expensive

State politicians know nothing about drug prices.



Photo: ISTOCK

Registering outrage over the high price of medicine is a national pastime, especially for politicians whose solution is always handing themselves more power. The latest examples come from Nevada and Maryland, where legislators are passing bills to punish drugmakers for no benefit to patients.

On Friday Nevada Republican Governor Brian Sandoval vetoed a bill on diabetes medication. The bill swept through the legislature and may make a comeback, so it's worth examining the details.

The state would have decided what counts as an "essential" diabetes medicine, including insulin and others. Manufacturers would be required to disclose the cost of production and marketing, as well as profits and more. That information is proprietary and hard to calculate, as the cost of medicines is influenced by research and development over many years.

Manufacturers would have to inform the state 90 days in advance of any price increase, which is nothing but a heads up to the folks running the public shaming campaign. Some purchasers would stockpile meds before the price ticks up, which could lead to shortages. The bill requires new disclosures for pharmaceutical representatives, an industry already regulated by the Food and Drug Administration.

In his veto message, Mr. Sandoval rightly said the bill "fails to account for market dynamics that are inextricably linked to health care delivery and access to prescription drugs."

If Nevada's Democrats really want to lower the price of medication, they should support more competition from generic alternatives. Take

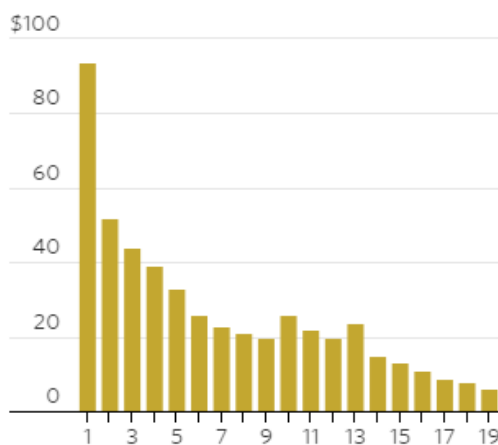
Glucophage, which helps regulate a diabetic's blood sugar. Glucophage costs about \$43 a month out of pocket for a

Medicare D patient, according to data from the Association for Accessible Medicines. A prescription for the generic Metformin? \$2.31 a month.

One FDA analysis in 2005 revealed that patients pay 94% of the branded price when a medicine has one generic competitor. That falls to about 20% of the price when eight companies are angling for market share. (See the nearby chart.) Yet a drug like insulin is expensive to produce and profit margins are low, so companies invest in areas with higher returns. Proving similarity to a branded drug is another challenge for more complex treatments, particularly alternatives to things like the EpiPen allergy shot that also require deploying a device.

Competition and Drug Prices

Average relative price per dose and the number of manufacturers, 1999-2004



Source: FDA
THE WALL STREET JOURNAL

Yet instead of noticing such disincentives, state governments are now attacking the generic industry. In May, Maryland's Republican Governor Larry Hogan allowed a bill to become law without his signature that would unleash the state Attorney General to investigate any generic drugmaker responsible for an "unconscionable" price increase. Remember that the left defines as unconscionable paying money for any health-care product or service.

The assault is especially bizarre given that generic products fill nearly 90% of all prescriptions but account for only 27% of total drug costs. State and federal programs are among the largest purchasers of generic drugs, and in 2015 generics saved more than \$32 billion in Medicaid alone. Generic drugs saved Maryland \$3.7 billion in 2015.

More than a dozen states have a drug-pricing bill in the hopper. The good news is that FDA Commissioner Scott Gottlieb is preparing a plan to drive more generic innovation and competition, which may include streamlining a duplicative approval process, among other improvements. That would make medicine more available and affordable for patients, unlike the political ploys rolling out of state capitals.

Appeared in the June 5, 2017, print edition.

Copyright ©2017 [Dow Jones & Company](http://www.wsj.com), Inc. All Rights Reserved.
<https://www.wsj.com/articles/how-to-make-medicine-more-expensive-1496603534>