The Effects of Off-label Drug Use on Disability and Medical Expenditure

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Does using prescription drugs off-label increase disability and medical expenditure? This paper uses a unique dataset to evaluate off-label vs. on-label drug use in the US non-institutionalized population. Patients using drugs off-label have on average $515 higher medical expenditure and work-loss cost. Pharmaceutical innovation has direct and indirect effects on off-label drug use. Market size is indicative of the fraction of treatments used off-label. Our findings have implications for regulation and welfare. We address endogeneity issues by demonstrating that patients with higher disease severity do not experience higher off-label uses and by controlling for unobserved individual and condition effects.