

January 4, 2010

Drug Prices Rise As Companies Anticipate New Restrictions

Written by Sarah McIntosh

As Congress continues to debate sweeping health care legislation, reports indicate the threat of greater regulation is already hiking costs as drug companies are reportedly raising prices in anticipation of lost income due to expanded taxes and fines, along with concerns about expiring patents.

A study released in November 2009 by AARP indicates drug manufacturers have raised prices on brand name drugs by approximately 9 percent over the prior 12 months, which would add \$10 billion to the country's annual drug bill, an amount expected to total more than \$300 billion for 2009.

Worried About Coming Regs

The AARP study, which was not peer-reviewed, examined prices of more than 500 drugs, covering approximately 82 percent of prescription-drug expenses.

Devon Herrick, a senior fellow at the National Center for Policy Analysis in Dallas, Texas, explains the rationale behind the price increases as offsets for legislative controls.

"This year the prices of many name-brand drugs have gone up double or triple the rate of inflation," said Herrick. "Many experts believe drug makers are trying to increase

prices before a health reform bill is passed and takes effect."

Performance Improvements Noted

John Calfee, a resident scholar at the American Enterprise Institute based in Washington, DC, says while the annual AARP reports on prices for patented drugs almost always make news, the reports typically ignore two factors.

"First, if AARP kept tracking drugs when they go off-patent so that the prices of new, generic versions show up, AARP would see that the past several years have seen the biggest declines in the prices of essential drugs in a long time," said Calfee. "Second, drugs continue to be researched after they enter the market. Post-approval R&D often reveals new uses for old drugs. This can make drugs more valuable and translate to higher prices."

Controls, Patents Cited As Motives

While critics argue drug manufacturers are raising prices to offset possible future controls, the companies say they are just trying to keep profits up to pay rising research and development costs, especially since some patents will expire within the next few years.

John LaPlante, editor of StateHouseCall, believes the drug companies are hedging their bets.

“First they agreed to support ObamaCare, hoping it would give them new customers,” said LaPlante. “Now they're trying to anticipate a new world by raising their prices before the federal government assumes an even larger footprint in the purchase of and regulation over their products.”

Herrick thinks both patent expirations and possible price controls contributed to the hikes.

“The current legislation contains price controls that would drastically reduce profitability by giving the government the power to ‘negotiate’ the prices of drugs sold through Medicare Part D drug plans,” said Herrick. “And the biggest impact on consumers is that fewer new drugs will be developed in the future, when drug makers have less incentive to invest in marginal products.”