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Spotlight: Attacking generics will only hike drug prices

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It is easy to be angry about drug prices, but reducing prices without reducing consumer access is no mean feat. The Illinois Legislature is the latest to attempt this high-wire act via a bill that would prohibit “price gouging” by generic drug companies.

The rationale behind H.R. 4900 is that while economists object to imposing price caps on blockbuster drugs sold by the large drug companies on the grounds that it would stifle incentives for innovation, generic companies are not doing any research to develop new drugs; they merely copy the formulas of existing drugs. Therefore, they rationalize, keeping generic prices in check won’t harm innovation.

This is misguided.

For starters, generic drug prices are low to begin with — well below the brand-name drug being replicated — and they tend to fall after its inception. The price deflation of generics keeps all drug prices lower by providing competition to brand-names.

While generic drugs may not be cutting-edge, instituting price controls on them would come at the cost of discouraging their production and sale by some companies altogether. They may not do business in Illinois.

Let’s say the government were to prevent a price increase for generic drugs that exceeds 100 percent. This would not account for the fact that many generics are sold at prices so low — literally pennies per pill — doubling the price would not, in fact, represent much of an increase. Under such a law, raising the price of a generic from $4 to $8 a bottle in response to a temporary shortage would potentially prompt action from the state Attorney General’s Office. Who benefits from such a rule?

Advocates of this bill also miss the true driver of high prices: the new blockbuster drugs, still on patent, that cannot be copied. Altering the prices of innovative drugs via government fiat would come with its own set of problems. The Department of Health and Human Services recently concluded that generics are not an important part of the drug price problem.

Generic drug prices fell 8 percent on average last year. They've dropped more than 70 percent in the last decade. The existence of a robust generic drug market has saved U.S. consumers and cash-strapped state governments billions of dollars.

Few generics have gone up in price. Market forces and competition constrain drug prices, as does the bargaining power of insurance companies and pharmacy benefit managers.

Imposing an arbitrary price constraint in the middle of this would do little apart from threatening the access of Illinois consumers to generic drugs.

Tackling high drug prices by limiting the price of generics is akin to claiming there's too much offense in the National League because pitchers hit too well.

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