



Jail for Shkreli won't lower drug prices

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Before sentencing notorious pharmaceutical executive Martin Shkreli to seven years in prison, the federal judge presiding over his criminal trial ordered him to turn over "Once Upon a Time in Shaolin," the Wu-Tang Clan album of which only a single copy exists. Shkreli paid \$2 million for the album, an extravagance he could afford after making a fortune by jacking up the prices of prescription medications.

Seizing the album and other assets worth a total of \$7.4 million may seem like karma, but it will do nothing to tame drug costs. Indeed, it is entirely legal to raise generic drug prices (which explains why Shkreli was convicted of securities fraud, not healthcare fraud). The problem is that government has made it far too easy for pharma companies to gain a national monopoly on the supply of drugs that no longer are patent-protected. Rather than make an example of Shkreli, the solution to outrageous drug prices is to embrace globalization.

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Shkreli first used this supply-control tactic at a company called Retrophin, where he raised the price of Thiola, a drug used to treat kidney stones, from \$1.50 per pill to \$30. He did it again at Turing Pharmaceuticals, where he increased the price of Daraprim, a 62-year-old treatment for a parasitic infection, from \$13.50 a pill to \$750.

Economic theory says that such behavior should attract competitors to the market, which would keep prices in check. But in practice, that's not what's going on. According to a 2016 report by the Government Accountability Office that studied 1,441 established generic drugs during 2010-15, 315 saw price hikes of 100% or more, and some had price hikes of 500% or more.

Collusion between drug companies explains some of these price increases. In these cases, it's up to the U.S. antitrust authorities to protect consumers. But leaving collusion aside, Shkreli and his "pharma bro" ilk avoid competitors in part because of the costly and time-consuming process of obtaining approval from the FDA to manufacture and distribute generic drugs. If the market is small enough, potential competitors may not think it worth the effort.

To fix this problem, Congress should allow companies that have been approved to sell drugs or medical devices in other developed countries to export those same drugs to the U.S. Many first-world countries have strong regulatory structures and are devoted to protecting their citizens

from harmful products; the FDA should grant automatic approvals to companies that satisfy the standards in those countries. Competition doesn't always bring drug prices down as much as one might hope, but it is still the best remedy for price gouging.

Consider Deflazacort, a treatment for a form of muscular dystrophy. The drug has long been available as a generic in Europe, where it costs about \$1,200 a year. But it wasn't legally available in the U.S. until 2017, when the FDA approved Marathon Pharmaceuticals' application to sell Deflazacort here. Marathon's chief executive, Jeffrey Aronin, announced that it would charge \$89,000 for a year's supply. Marathon ultimately backed down after public outcry — but it never could have gouged American patients if the companies that market Deflazacort in Europe were free to sell it here.

Legislation that would grant reciprocal drug and device approvals with other countries has been introduced in Congress repeatedly, with support from both parties. To date, these bills have gone nowhere. But President Trump has pledged to bring drug prices down, and Alex Azar, the new secretary of the Department of Health and Human Services, is advocating major changes to make healthcare more affordable. Drug approval reciprocity belongs at the top of the list.

Until that happens, what can consumers do to protect themselves from price gouging? Although U.S. law formally prohibits importing prescription drugs, tens of millions of Americans have saved billions of dollars by doing so. They bring drugs home from trips to Mexico and Canada, and they order them online from pharmacies abroad. These practices already are too widespread for customs agents to police. As more people follow suit, the likelihood of a federal crackdown will become even more remote. Congress, sensing the futility of trying to stem the tide, finally may move forward with legislation authorizing automatic reciprocal approvals.

Then, instead of having to shop abroad, Americans will find less expensive drugs — from manufacturers that sell in Europe, Australia and other countries with standards like our own — at their local drugstore. And that's when the pharma bros' stranglehold on drug prices will finally be broken.

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