So, generic drugs were going to be the savior of medicine. How s that working out?

By ACSH Staff — November 20, 2014

In today s you could have predicted this department, we are going to take a look back at the rather naive mindset of the American public that took center stage about five years ago.

At that time, the pharmaceutical industry was facing the patent cliff the loss of the patent life of some of the best selling drugs. Once the patent of the original discovery expires, any company is then free to manufacture the generic version of the same drug the next day.

Given that generic companies shell out none of the roughly $2 billion that it takes to develop a new drug, they can sell it at a much lower price (which can result in discounts up to 80 percent).

At the same time, the sales of the brand name drug typically collapse, sometimes immediately. So, the general consensus at the time was that generic companies would charge much lower prices, saving us a ton of money. But did they? More on this later.

Some of the multi-billion dollar top selling drugs that suffered this were Plavix, Lexapro, and Seroquel, but the poster child of the patent cliff was Pfizer s Lipitor the best selling drug in history at that time.

Ironically, the impending loss of the Lipitor patent left Pfizer with a $13 billion hole to fill. They did this at least partially by buying Wyeth, taking their product line, and firing tens of thousands of people, which is why ACSH s Dr. Josh Bloom now works here instead of there. He wrote about this [1] back in 2011.

Well, the saintly generic companies aren t looking so saintly anymore. Their prices are not only *not* low, but in some cases obscenely high, leaving people to wonder if the real greedy drug companies were not those that originally discovered the drug, rather, the generic companies that sold them later.

This is a very hot topic right now. It has gotten the attention of the Senate, which is now holding hearings on this issue, for example, why the price of doxycycline the first line therapy for Lyme Disease has risen 92-fold [2] (!!) from about 20 cents per pill to $18.49 between October 2013 and April 2014.

The chair of the Senate Aging committee, which is examining this fiasco is being led by Sen. Bernie Sanders (I-VT).

Dr. Bloom comments, I am flabbergasted that I find myself in agreement with Bernie Sanders. Before this, I don t think we would be able to agree that it is darker at night than during daytime. But, he happens to be dead-on here.

What is going on here can best be explained by Ed Silverman, who is one of the world s premier experts on all facets of the pharmaceutical business. Silverman s Pharmalot blog, which is now published in the Wall Street Journal, is invaluable for anyone who wants to stay on top of this rapidly-changing industry.

His November 14 piece [3] entitled To the Moon: Will Rising Prices for Some Generic Drugs Never End? explains the entire story far better than we can.

Two of his key quotes:

In the frenetic U.S. health care system, one thing has generally been constant a generic drug is a low-cost alternative to brand-name medicines. But over the past year, this reliable view of the world has begun to change as reports emerged of consumers encountering substantial increases for some drugs.

What is behind the price hikes? For one, FDA enforcement of violations at production plants has been more pronounced in recent years and contributed to supply disruptions as drug makers worked to correct problems. In some cases, drug makers discontinued production when margins were too low.

Note that this is also one of the reasons that, after 8 years since the crisis began, there are still life-threatening shortages of hundreds of common hospital drugs, something that Dr. Bloom wrote about in his New York Post op-ed [4] in 2011.

Others concur. Dr. Aaron Kesselheim, professor of health economics at the Harvard University School of Public Health is one of them. Kesselheim, one of the authors of a recent NEJM perspective piece [5], said, Some very old generic drugs may not appear as profitable as some more recently approved generic drugs. So as companies pursue the greatest revenue-producing products, they may leave these older products to just a limited number of companies that have more freedom to raise the price.

Something we have been saying for years.

Dr. Bloom ends with, The job of companies, whether Pfizer, Apple, or Toyota is to separate you from your money. This is fine, except when it is abused. Raising the price of doxycycline a 50-year old drug that costs nothing to make by 92 fold, simply because you can, is not all that different from charging $100 for a bottle of water just before a hurricane is about to hit. Profit is fine. Unscrupulous price gouging? Not so much.

Links

[1] http://nypost.com/2011/06/24/americas-vanishing-science-jobs/
[2] http://www.stltoday.com/business/local/soaring-generic-drug-prices-draw-senate-scrutiny/article_0a86a3f8-0acb-5980-89a9-8968516ea834.html
[3] http://blogs.wsj.com/pharmalot/2014/11/14/to-the-moon-will-rising-prices-for-some-generic-drugs-never-end/
[4] http://nypost.com/2011/08/16/running-out-of-common-drugs/
[5] http://www.nejm.org/doi/full/10.1056/NEJMp1408376?query=TOC