Drug Price Control in Developing Countries

Issues and Concerns

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Key Policy Dilemma

- Trade-off between distribution (access) and drug development (technological progress)
  - Price control to avoid monopoly pricing (profits) and enhance affordability
  - Investments in R&D positively linked to expectations of short-term monopoly profits
- How to ensure affordability of drugs without adversely affecting in a significant manner the incentives to develop new drugs?

What are the potential adverse implications of price control?

- Lower incentive to do R&D
  - Significant decline in R&D expenditures (Scherer, 2004, Santerre & Vernon, 2005)
  - Lower number of drugs developed in the presence of price control (38 % fewer drugs – Giaccotta et al, 2005)
  - Is efficacy of all these drugs significant/similar?
- Delay or reduction in the probability of launch in countries that impose them (Kyle, 2007)
  - Entry of new drugs in the same therapeutic segments more important to enhance competition than entry of generics
- Trade-offs difficult to evaluate
  - R&D incentives vs. delays to market (non-entry) vs. social welfare gains through increased use of drugs due to lower prices
- Should we take into account other concerns as well while taking a view on drug price control?

Do specific product features of drugs justify price control?

- Consumer choice in pharmaceuticals significantly curtailed by information asymmetry
  - Experimentation is typically not feasible/desirable
  - Pharmaceuticals do not fit the concept of experience goods either
- The choice is made by the doctor
  - Consumers can potentially choose doctors but the market is imperfect and choice limited.
  - ‘Marketing efforts’ by companies can influence choice by the doctors (“Detailing”, Scherer, 2004)
  - Potentially there can be information asymmetry between doctors and companies as well

And consumers do not have other options to take care of these problems

- Choose among health cover plans
  - What if such coverage is very limited, or
  - There is not much competition among health cover providers
- Availability of cheaper/generic substitutes from pharmacies
  - What if appropriate regulation is not in place, or
  - Substitutes are not available, or
  - Pharmacies earn higher margins from expensive drugs
- Benefit from low prices through competition
  - Assumes availability of substitutes
  - Collusive practices in the absence of effective competition policy may make this option hypothetical

But implementing price controls is not easy and can lead to regulatory failure

- Should costs be the basis of setting prices?
  - How does one get cost data?
    - Costs of new drugs most difficult to assess
    - Possibilities of regulatory capture?
  - Rate of return based formula can breed inefficiencies but what should price caps be based on?
    - How does one incorporate R&D costs and the costs of failures?
    - Cross-country reference pricing may be inadequate, especially for new drugs
- Should one assess contestability before fixing prices?
  - Efficacious competition policy critical for this approach

What are the takeaways?

- Role of price control policy needs to be seen in the context of other measures like competition law, substitution rules
- Role of price control is higher in the absence of adequate insurance cover, appropriate purchase policies
- Drug price control is a WTO compatible remedy available to us, needs to be preserved
- Implementing price control is difficult, clear transparent rules desirable
- “Too much” price control may be counter-productive
- Efforts to reduce information asymmetry very critical

Thanks!

Comments

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Questions?