

Prices of US branded prescription drugs rose 13 percent in 2016

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2 June 2017

According to the National Drug Index put out by the health care technology company Truveris in early May, the prices of branded drugs rose by 13 percent last year, while drug prices overall increased by 8.8 percent.

The rise in drug prices is 318 percent higher than the rise in the costs of goods due to inflation, according to the report. Truveris data for the first quarter of 2017 continued to show drug price hikes outpace inflation.

Over the past three years, drug prices have increased an average of 10 percent each year.

“Actual drug price inflation hurts the patient the most, especially individuals with high deductibles, coinsurance or no insurance at all,” A.J. Loiacono, a co-founder and chief innovation officer at Truveris, said in a statement released with the report.

The release of the Truveris data follows a report issued by Credit Suisse in April, which found that the price hikes by drug companies were responsible for 100 percent of the industry’s growth in 2016. For major biopharmaceutical companies such as AbbVie, Allergan, Amgen, Biogen, Eli Lilly, Merck and Pfizer, the report found that price increases represented at least 100 percent of their net income growth.

“Despite public scrutiny, we estimate US net price rises contributed \$8.7 billion in 2016 to net income, 100% of sector EPS [earnings per share] growth,” said the report, according to *Business Insider*.

This past January, the month in which drug companies usually introduce their price hikes, the industry raised the list prices of 2,353 prescription drugs, according to an analysis released in February by the investment firm Raymond James & Associates. The firm found that although there were fewer price hikes overall and fewer price hikes above 10 percent, the average price hike of 8.9 percent remained about the same as in 2016.

Raymond James analyst Elliot Wilbur told the *Wall Street Journal* that the smaller price hikes are due to fears of public anger, so the drug companies are “sticking with what they perceive to be the rate the market will bear, high single digits.”

Driven by pressure from shareholders determined to maximize their return on capital, and facing a decline in Research and Development (R&D) productivity, drug firms have sought to maintain and ratchet up profits through frequent and often gargantuan drug price hikes.

The strategy of acquiring an old, long-available drug and then hiking the price by thousands of percentage points, carried out most notoriously by Turing Pharmaceuticals, continues to be pursued in 2017.

Marathon Pharmaceuticals, based in Deerfield, Illinois, took the drug deflazacort, a steroid used to treat children with Duchenne muscular dystrophy that was available in Europe and Canada for between \$1,000 and \$2,000 per year, and hiked the price by 6,000 percent to \$89,000 per year.

The company took advantage of the fact that while the drug had been widely available elsewhere, it had not yet received FDA approval in the US. As such, it was considered a “new” drug (branded as Emflaza), giving the company not only a seven-year monopoly on selling the drug in

the US, but also vouchers and other benefits because Duchenne muscle dystrophy is classified as a rare disease.

Amid outrage over the price gouging, Marathon delayed the release of the drug in February, ultimately selling the drug in March to the New Jersey-based PTC Therapeutics for \$140 million in cash and stock.

Drug manufacturers have also pursued less legal methods for keeping drug prices high.

Lawsuits over drug price hikes

In December of last year, 20 state attorneys general jointly filed a federal antitrust lawsuit alleging that a number of generic manufacturers—Heritage Pharmaceuticals, Aurobindo Pharma ASA, Citron Pharma, Mayne Pharma, Mylan Pharmaceuticals, and Teva Pharmaceuticals—entered into illegal conspiracies in order to reduce competition and artificially inflate the prices of an antibiotic (doxycycline hyclate) and an oral diabetes medication (glyburide).

According to a lawsuit filed last month by Sanofi-Aventis, Mylan attempted to leverage the high price of EpiPen in order to “squell this nascent competition” from Sanofi’s rival product, the Auvi-Q. The lawsuit alleges that Mylan would offer deep discounts to drug suppliers, as long as suppliers agreed that they would not purchase Sanofi’s product, ultimately dropping Sanofi’s market share from 13 to 7 percent.

Sanofi dropped the Auvi-Q from the market in 2015, although the product has been brought back by the drug company Kaleo, but with an inflated price tag of \$4,500, reports *Ars Technia*.

Seeing the writing on the wall, a few drug companies have made largely symbolic gestures to address drug pricing. Merck and Johnson & Johnson, for example, have begun publishing pricing transparency reports, while Allergan has called on other companies to limit price hikes to single-digit increases.

Valeant Pharmaceuticals, on the other hand, which has come under attack for dramatically hiking its drug prices and other seedy business practices, is contemplating changing its name to take attention away from the company’s scandals. “Surprisingly enough, a strategy like that can sometimes work,” Bob Killian, founder of Killian Branding, told *Bloomberg*. “We’ve talked about our scandal—jingling the keys now—here’s the new shiny object, our name change.”

“To the insiders who are going to be cynical and giggle at it, it’s an obvious distraction,” Killian said. “That doesn’t mean it won’t work.”

In its latest public relations move, the industry trade group Pharmaceutical Research & Manufacturers of America (PhRMA) changed its membership rules to require members to spend at least \$200 million on R&D and ensure that R&D spending equals at least 10 percent of the company’s global sales. Last month, the industry group kicked out 22

drugmakers who did not meet the new criteria.

These membership changes at PhRMA follow the exit from the trade group of Mallinckrodt Pharmaceuticals and Marathon Pharmaceuticals in April after they sparked outrage for their price-gouging efforts.

In 2014, Mallinckrodt acquired from Questcor Pharmaceuticals the drug Acthar, a medication developed in the 1950s that is primarily used to treat infantile spasms. Questcor, and then Mallinckrodt, came under heavy criticism for repeatedly hiking the price of the drug, from \$1,235 a dose in 2005 to over \$20,000 in 2008 and more than \$35,000 in 2016. Likewise, Marathon left PhRMA after the negative publicity it received surrounding its pricing of deflazacort for Duchenne muscle dystrophy.

The change by PhRMA is, of course, an attempt to legitimize the continued price gouging by the industry. It allows pharmaceutical companies to draw attention to the money they spend to research and develop new drugs—the primary (and unjustified) excuse the industry uses to rationalize its high drug prices.

Meanwhile, pharmaceutical companies have continued to focus on their primary method for generating revenue: sales and marketing.

According to Medical Marketing and Media, the US pharmaceutical industry spent a record \$5.6 billion on direct-to-consumer advertising in 2016, an increase of 9 percent over the previous year. Other than New Zealand, the US is the only country that allows direct-to-consumer advertising for pharmaceuticals, which encourages consumers to “ask your doctor” about a particular medication—instead of, for example, an equally effective generic version or an older drug with a longer safety track record.

Soap opera advertising

Beyond the usual direct-to-consumer advertising, at least one drug manufacturer has taken to soft-selling its wares on a TV show. The longest-running daytime soap opera, *General Hospital*, developed a storyline in which one of the characters is diagnosed with polycythemia vera (PV), an uncommon cancer and a form of myeloproliferative neoplasm (MPN).

According to an article published last month in the *Journal of the American Medical Association* (*JAMA*), the storyline was the product of a partnership between the US pharmaceutical company Incyte and the show’s producers (a fact that Incyte readily admits to, having even issued a press release). While the FDA regulates direct-to-consumer advertising (e.g., requiring the listing of potential side-effects), “disease awareness” promotions are generally not considered advertising as long as a specific treatment is not identified.

Incyte’s only FDA-approved product on the market is a second-line therapy for treating MPN, ruxolitinib, a Janus kinase 2 (JAK2) inhibitor. It is the only therapy that targets the genetic mutation in the *JAK2* gene that is likely responsible for the disease process.

In the episode of *General Hospital*, the doctor lists the treatments used to address the disease. The character, Anna Devane, replies: “But this protocol sounds like you are treating the symptoms of this cancer; how do we beat it?” The line subtly promotes Incyte’s drug.

Vinay Prasad, co-author of the *JAMA* article, told *Vox* that the promotion of the rare and difficult therapy to diagnose cancer could lead to over-diagnosis. In such cases, individuals could seek out a possibly unneeded drug, costing upwards of \$1,000 per month, that carries side effects including severe anemia and heightened risk of infectious diseases.

“It blurs the line between advertising and a public health message,” Lisa Schwartz, a Dartmouth professor of medicine who studies pharmaceutical marketing, told *Vox*. “This just seems like a terrible precedent and

something needs to be addressed.”

Pharmaceutical companies also invest in marketing drugs to doctors, which a number of studies have found to be effective. A study published in *JAMA* in May that looked at the prescribing behavior of 2,126 doctors at 19 US academic medical centers found that restrictions on how and where sales reps, known as detailers, were allowed to interact with doctors led physicians to prescribe more generic medications—less-expensive equivalents of branded drugs.

This follows an article published in August of last year in *JAMA Internal Medicine*, which found that even the simple act of receiving an industry-sponsored meal resulted in higher prescribing rates of the brand-name medication being promoted by the company.

In response to the outrage over the prices of drugs, federal and state legislators have put forward a number of inadequate proposals to rein in high drug prices. They include speeding up the approval time for new generics, making the price hikes more transparent, requiring more transparency from pharmacy benefits managers, allowing consumers to import drugs from abroad, and allowing Medicare to negotiate drug prices.

Pro-profit medicine

Few of these proposals have any chance of actually going forward, and none would address the underlying cause of the skyrocketing drug prices, the complete subordination of health and medical decisions to the profit interests of corporations.

Nonetheless, wary that the public backlash against price hikes might translate into minor political reforms, the pharmaceutical industry has begun to flood state and federal legislatures with lobbyists.

According to the Center for Responsive Politics, PhRMA spent \$19.7 million on lobbying in 2016. The trade group spent \$7.98 million in the first quarter of 2017, more than any single quarter in nearly a decade, according to *Kaiser Health News*.

Looking at congressional records, *Kaiser Health News* found in April that that lobbying spending by eight pharmaceutical companies—including Celgene, Mylan, Shire Pharmaceuticals and Teva Pharmaceuticals—doubled in the first three months of 2017. In this same period, spending by 38 large drugmakers and trade groups increased by \$10.1 million to a total of \$50.9 million, allowing the industry to pay for 600 lobbyists.



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