Price control on drugs is lazy thinking

There’s no denying that the cost of health care is rapidly rising. Photo: Special Arrangement

The government is increasingly relying on imposition of price controls on medicines and devices to check rising health-care costs. However, it will discourage investment, innovation and job-creation that it is equally committed to promote.

Last month, the National Pharmaceutical Pricing Authority capped the prices of 37 more medicines (raising their number to 821). It has already capped the prices of coronary stents and orthopaedic implants. More medicines and devices are likely to come under price control. Roughly, 20% of medicines by volume are subject to price controls. This is about Schedule 1 medicines. Section 5.18 (j)(i) of the proposed pharma policy says: “All strengths and dosage forms of price-capped medicines shall be liable for price cap.” This means that even a combination drug which uses price-controlled ingredients will be subject to a price cap.

The policy also seeks to raise import duties on active pharmaceutical ingredients (API) to encourage the indigenous industry. This will increase the input cost for formulation manufacturers. Restrictions on loan licensing will further raise manufacturing costs and bring down the margins of pharma companies. This will impact their ability and willingness to fund research and development of innovative medicines, ultimately hurting the interests of patients. R&D spends by Indian pharma companies are already low, at 8-10% of their sales revenue, when compared to a figure of 20% for multinationals.

It looks as if India doesn’t want to learn from the past. Subjecting 74 notified bulk drugs to price control via the Drugs (Price Control) Order 1995 led many pharma companies to opt out of their production. This forced manufacturers of formulations to import bulk drugs and APIs from China which now supplies two-thirds of India’s requirements.

It is well established that investors prefer predictable policy. Therefore, frequent imposition of price ceilings creates uncertainties, caps expected profit and deters investors. Moreover, there’s a trade-off between price and quality. Yet, price control may make sense if medicines are expensive or pharma companies are making super-normal profits. India is one of the world’s cheapest places for medicines. While the efforts being taken to make health care affordable are praiseworthy, imposing price controls in a market economy is lazy policy making.

The key to bring down medicine (or device) prices lies in increasing competition among pharma (or device) companies. Unlike oligopolistic airline or telecom industries which may require price regulation, there are 15,000 pharma companies in India competing with each other for market share. That makes collusion and price rigging difficult.

There’s no denying that the cost of health care is rapidly rising. However, the reason for that is not the super-normal profit being made by pharma companies but profiteering by private hospitals and low per capita availability of medical practitioners. Doctors’ consultation fees, cost of operation procedures, diagnostic tests and hospital bed rentals are the factors responsible for rising health-care costs. Increasing the supply of cheaper medical seats in government medical colleges will make doctors less vulnerable to unethical profiteering by private hospitals.

Increase health spending

The market for health services is characterised by imperfect knowledge as the seller knows more than the buyer who can’t shop around for the best deals, especially during an emergency. The lack of competition from under-staffed and over-crowded government hospitals adds to the problem. Improving facilities at government hospitals will provide a real alternative to hapless patients, rich or poor, who are often forced to go to expensive private hospitals. That would require an increase in government spending on health care which is low at 1.4% of India’s GDP when compared to 3% in China and 4.3% in Brazil.

The government should also instruct all health-care providers to display all charges and fees on their websites so that buyers of their services can compare and decide where to go and which facilities to use. This will reduce information asymmetry and improve transparency — a key requirement for any market to function smoothly. Besides, the government can directly procure medicines from manufacturers and distribute them through 1,700 Jan Aushadhi outlets to further reduce medicine prices without the need for market distorting price controls.

Ritesh Kumar Singh is a corporate economist and policy advocacy specialist based in Mumbai

Lifestyle-related risk factors are being cited, compounded by an inadequate number of treatment centres in the region

Without policies to stop the worrying spread of antimicrobial resistance, the mortality rate could be disturbing

END