

Causes and Non-Causes of Drug Shortages

By Alex Brill

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profitably reduce prices in a market below competitive levels by curtailing purchases of the relevant product or service.⁴⁷

In the case of the drugs that GPOs are accused of driving into shortage, GPOs may have negotiated low prices – prices willingly offered by competing manufacturers in arms-length agreements – but they did not decrease purchases, as demand for health care is

relatively inelastic. Moreover, because there are many GPOs, not to mention hospitals and other buyers, a single GPO cannot exert sufficient power over generic drug manufacturers to force them from the market. Rather, manufacturers can compete for GPO, hospital, and other contracts as they do in the rest of the market while also maintaining their sales through distributors.

CONCLUSION

A disruption to the delivery of quality health care caused by a drug shortage is potentially serious. While steps taken by manufacturers and the FDA in the last five years have resulted in a significant decline in the number of new shortages, persistent shortages remain elevated. Despite progress, policymakers rightly remain concerned. In looking for additional remedies, lawmakers and regulators should recognize three points.

First, economic realities such as the time and cost associated with building a new manufacturing facility and the sometimes unpredictable nature of shifts in demand mean that it will never be possible to avoid all drug shortages. Second, while the FDA should be commended for the progress it has made, the agency must continually strive to accelerate review times and work cooperatively with manufacturers to resolve potential problems before they materialize into shortages. And finally, while GPOs play an important role in reducing transaction costs and negotiating for lower prices of many pharmaceuticals, including sterile injectables that have been in shortage, there is no evidence that they are a contributing factor to the shortages that have occurred.

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