Price Bomb of Gilead

The liberals demanding pharmaceutical price controls, and the Republicans warming to the idea, have moved on from their outrage over the Hepatitis C cure that debuted two years ago. Perhaps that’s because their fury was entirely synthetic—as even Democrats on the Senate Finance Committee now concede.

That’s not how Ron Wyden of Oregon and his Republican wingman Chuck Grassley of Iowa would characterize the findings of their 18-month investigation into Gilead Sciences and the drug Sovaldi. But after examining more than 20,000 pages of internal documents and conducting dozens of interviews with executives, their most damning conclusions are that “Gilead’s marketing, pricing and contracting strategies were focused on maximizing revenue.” So the scandal is that the company tried to make money.

Still, Messrs. Wyden and Grassley have done a kind of service. The price-control lobby claims to favor “transparency,” and the 134-page report and in particular the documents in the supporting exhibits provide perhaps the most transparent look ever into pricing decisions in the modern drug business.

Far from the gouging of political lore, the report shows Gilead deliberately and rationally set a price for the therapy sofosbuvir (commercially name Sovaldi) on the basis of “clinical attributes, value determination, market research will payers and the cost of current product regimens.” The drug produced far better outcomes, faster, compared to the then-current standard of care without the severe side effects that accompany interferon therapy. Before Sovaldi, most Hep C patients weren’t treated or stopped treatment early.

Messrs. Wyden and Grassley claim Gilead attempted to “raise the price floor for all future Hepatitis C treatments,” but the documents say the opposite. A Gilead slide deck from March 24, 2013 referred to the base price for the Hep C drug Incivek ($55,275) and estimated the average price of a course of treatment with interferon was $82,496. Gilead believed it would be clinically and economically justified to charge list prices between $82,000 and $121,000 for a superior and more valuable medicine, though list prices are later discounted.

Gilead determined that the optimal price was at the lower end of the range—$84,000. Yes, that would maximize revenue as the reward for the risk of bringing Sovaldi to market. But the company rejected higher prices not least because it worried about political blowback. The concern about higher prices was “patient starts,” or how many people would begin Sovaldi therapy. Gilead feared that at too high a price insurers would begin to restrict access. Note to politicians: Most businesses want people to be able to afford their products.

Gilead’s mistake was to imagine that Sovaldi would be graded on logic and evidence. A May 10, 2013 presentation to the company’s Internal Global Pricing Committee noted that at $84,000 Sovaldi would be cheaper and better than anything else available and thus would be welcomed by insurers and government, “in terms of clinical efficacy as well as budget impact and cost savings (i.e., reductions in the number of hospitalizations).”

Gilead underestimated how much ObamaCare’s price controls on insurers would cause the insurers to squeeze providers and also increase the liberal appetite for more government control. Sovaldi was a handy pretext.

A bizarre theme in the Wyden-Grassley report is what it calls “a backdoor of staff competition.” AbbVie and other drug makers were about to release a wave of other Hep C protease inhibitors that built on the research advances that led to Sovaldi. “It is clear that Gilead was concerned about competition,” which the authors helpfully note “would restrict the company’s ability to capture higher prices.” Lo, prices did fall.

The Senate Finance Democrats conclude with a whimper: “It is true that aspects of the system worked, in this case, because AbbVie came to market with a competitor drug. . . . However, only looking at that one event in a vacuum ignores the impact of the efforts that Gilead had undertaken to change the HCV market as a whole.”

Yes, well, when you invent a cure for a terrible disease you do tend to change the market “as a whole.” The price controllers need a remedial education in economics.