



Weekly Checkup

Innovation and Spending: A Love Story

CONOR RYAN | AUGUST 21, 2014

The slow health care spending growth of recent years [eludes simple explanation](#). The Affordable Care Act can't claim credit, and the recession isn't fully responsible. In reality, the slowdown story is best told as a series of vignettes, one of which features prescription drug innovation. Intuitively, the development of new and expensive drugs begets higher prescription drug spending, while the availability of cheaper, generic drugs can help control spending. The graphs below demonstrate the latter relationship: the dramatic fall in prescription drug expenditure growth has been accompanied by a surge in generic drug approvals.^[1] Between 2007 and 2012—a period that witnessed record highs of generic drug approvals and relatively flat innovative drug approvals—mean real prescription drug expenditure growth was 0.2 percent.



[1] Generic drugs are categorized as all Abbreviated New Drug Applications. Data on drug approvals taken from the Electronic Orange Book provided by the FDA: <http://www.fda.gov/drugs/informationondrugs/ucm129689.htm> and data on prescription drug expenditure growth is from the National Health Expenditure Accounts: <http://www.cms.gov/Research-Statistics-Data-and-Systems/Statistics-Trends-and-Reports/NationalHealthExpendData/NationalHealthAccountsHistorical.html>