



11350 Random Hills Road, Suite 800, Fairfax, Virginia 22030 Phone (703) 934-6101 Fax (703) 352-3678

fff@fff.org www.fff.org

Blame Government for Vaccine Shortage **by Sheldon Richman**

We now know that when the government tries to suppress the production of a drug, say, heroin, supplies nevertheless remain plentiful. Yet when the government tries to guarantee production of a drug, say, flu vaccine, supplies can run short, endangering the people most vulnerable to disease. That's government for you.

The government, especially the Food and Drug Administration (FDA), interferes throughout the vaccine-production and -distribution process, inflating costs with bureaucratic regulation. The FDA essentially regulates vaccine manufacturing. As Arthur Foulkes wrote in the March 2003 issue of *The Freeman* magazine, the agency's powers "allow the FDA to dictate even minor details of vaccine making (such as record keeping, lighting, and labeling) and force manufacturers to constantly invest in the 'latest technology' to keep up with FDA-determined industry standards. Worse, the FDA can change [the rules] without warning."

The FDA interferes further by determining the composition of the vaccine each year, depending on the government's estimate of which flu strain will threaten in the coming season. "Until the FDA decides on the 'proper' mix of strains, vaccine makers have their hands tied," Foulkes wrote. "If the FDA is slow reaching its decision, vaccine producers are immediately on a tight schedule — it normally takes six to eight months to manufacture flu vaccine."

After hiking the cost of making vaccine, the government then depresses the return to manufacturers. As the *Washington Post* wrote recently, "Because much of the vaccine is bought in huge orders by government agencies, the price is low." To make things worse, demand for vaccine is volatile year to year. In the past, companies have been left with large quantities of unsold vaccine, which has to be thrown away, resulting in large financial losses.

All this is a recipe for trouble, as anyone with even a smidgen of economic knowledge will realize. Companies will not be enthusiastic about remaining in a line of production if they can earn higher returns in another line without the bureaucratic hassle. The web of regulation results in a shaky industry, dangerously vulnerable to shocks and unexpected changes, as happened this year when the British government knocked out half the supply for the U.S. market when it found

contamination in a Liverpool manufacturing facility operated by Chiron Corp. of California. No one was prepared to make up for that sudden shortage. Yet three decades ago, two dozen companies supplied vaccine to the United States, according to the Institute of Medicine.

Just a few years ago, four companies were in the industry. But Parkedale Pharmaceuticals stopped making vaccine in 2000 because of the FDA's costly demands. Wyeth Pharmaceuticals followed in 2002, leaving two vaccine makers in the market.

Compare this precarious situation with the illegal drug market. The black market in prohibited drugs is notorious for its resilience. When the government squeezes one source of supply, another one immediately responds to make up for the shortage. Why? Because production, distribution, and pricing are conducted outside the view of government, enabling entrepreneurs to serve their markets efficiently and flexibly.

We should learn something from this. Even the best-intended government regulation inhibits the satisfaction of consumers. Arbitrary bureaucratic rules make products artificially expensive and artificially scarce. Policies that keep prices low have an effect opposite to that than intended: they chase producers from the marketplace and make products hard to obtain.

As economists have focused on the record of the FDA, they have increasingly concluded that it is bad for the health of Americans. Stories abound about how the bureaucracy delays life-saving drugs. Now it has created a shortage in flu vaccine.

If we want a plentiful supply of vaccine and other medicines, it's time we freed the entrepreneurial market, which has made so many other products affordable and accessible. It is the only way for innovation to thrive. Private inspection firms can certify the safety of vaccines without the strangling bureaucracy. Philanthropic organizations can ensure that vaccine is available to those who cannot afford it.

Government has made a mess of the finest medical system in the world. If it doesn't stop soon, everyone will suffer.

*Sheldon Richman is senior fellow at The Future of Freedom Foundation, author of **Tethered Citizens: Time to Repeal the Welfare State**, and editor of [The Freeman](#) magazine.*

This article was originally published in October 2004.