WASHINGTON Examiner

Biden looks to top predecessors in cutting prescription drug prices

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December 7, 2021

Joe Biden isn't the first president to tell supporters he'll lower the cost of prescription drugs, but at the White House on Monday, he vowed to succeed where his predecessors did not.

Biden made his case for lowering costs during a Monday speech that followed a meeting with two women who suffer from diabetes and struggle to afford insulin.

"Healthcare should be a right, not a privilege, in this country," Biden said. "This is not a partisan issue."

Among Biden's plans are giving Medicare the power to negotiate prices once new drugs have been on the market for several years, imposing a tax penalty if drug prices rise faster than inflation, and capping out-of-pocket drug costs at $2,000 a year for seniors on Medicare. Insulin costs would be capped at $35 a month.

Some of those ideas have more merit than others, says Cato Institute Director of Health Policy Studies Michael F. Cannon.

“Everyone who supports smaller government (read: Republicans) should support reducing the prices Medicare pays for prescription drugs," Cannon wrote in a recent analysis, adding that any cost savings should be returned to taxpayers.

Under Biden's plan, so-called "small molecule" drugs will be eligible for negotiation after nine years, while biologics will be up for negotiation after 12 years. Medicare will negotiate up to 10 drugs a year starting in 2023 and 20 drugs a year after 2025.

But artificially pegging drug price increases to inflation would cut companies' ability to respond to market forces and reduce innovation, Cannon argues, adding that Biden's proposal would not return savings to taxpayers but instead spend it elsewhere.

The pharmaceutical industry and its representatives, such as the Pharmaceutical Research and Manufacturers of America, argue broadly that any lower prices reduce the incentive for innovation and would lead to cuts in research and development.

But prices are so high now that current incentives are too strong, argues Brookings Institution senior fellow Paul Ginsburg.

"We have plenty of incentives for innovation and we could do fine pruning it back," Ginsburg said. "There's a law of economics called the law of diminishing returns. When you have a lot of money to pursue innovation, you start pursuing less promising innovation opportunities."

The patent system itself is a temporary government-enforced monopoly, Ginsburg adds, so what the bill proposes simply acknowledges that the current incentive is too strong and needs to be rebalanced.

Ginsburg's research found that Americans pay much higher prices for brand-name drugs than citizens of other countries — so much so that roughly 75% of all drug company profits worldwide stem from the United States, where nearly 3 in 10 say they have foregone taking medications due to cost.

But Ginsburg also favors price caps, saying they would bring Medicare in line with other forms of health insurance that have out-of-pocket maximum costs not only for drugs but for other kinds of care.

"All of Medicare is a laggard in this dimension," he said.

The Senate is set to debate the $2.4 trillion social spending bill in the coming weeks, and Republicans are expected to push back against some of the proposals, particularly with regard to individuals with private insurance.

The idea of reining in prescription drug costs has been touted for decades. Medicare was expanded to include a prescription drug benefit through the creation of Part D under President George W. Bush. But pharmaceutical companies remain a lightning rod in healthcare debates.

“These price increases are about companies looking to maximize profits, and nobody is standing up for the patients,” Biden said. “Nobody has held the manufacturers accountable until now.”