



# Here is what Trump should do about the drug pricing problem

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In a 2017 press conference, President Donald Trump said that drug companies were “getting away with murder.” Later this week, he’s going to offer a program for making drugs cheaper. Which policies should he endorse?

For branded drugs, patents exclude competitors and allow drug companies to set high prices. For generics, most pricing problems are also attributable to insufficient competition. When only a few companies make a drug, they can raise prices in tandem or play other pricing games. Our insurance-dominated payment system compounds these problems by eliminating any constraints on the prices drug companies can charge.

To fix the generic market, we need to change the Food and Drug Administration (FDA) policies on pricing. Congress should give the FDA the resources it needs to clear out the sizable backlog of applications from generic drug makers — the median length of the FDA approval process for generics was 47 months as recently as 2016.

One way to keep prices low would be to move applications for generics that have experienced price hikes to the front of the queue. When incumbent manufacturers realize that price hikes will result in new entry, they may be deterred from jacking up prices to begin with.

The FDA should relax its grip on market entry too. In particular, it should let manufacturers that qualify to sell generics in Canada, England, France, Israel and other developed countries automatically sell the same drugs in the United States — at least so long as the drug has already been approved by the FDA and the marketing exclusivity period provided by the Hatch-Waxman Act has expired.

These countries have the expertise needed to protect their citizens from excessive risks and the desire to do so. Waiving drug makers into the U.S. market will increase competition, reduce prices and prevent future price hikes.

What about branded drugs? To make progress on that problem, we need to attack both causes — monopoly and open-ended insurance. The monopoly problem is particularly tough, because it requires Congress to undertake patent reform.

Some academics and even policymakers such as Sen. Bernie Sanders (I-Vt.), would give drug companies prizes for developing new medications instead of patents that confer sales

monopolies. After a prize is awarded, all companies would be free to make and sell the new drug. This would encourage competition in sales markets, keeping consumers' prices low.

A prize system would not work perfectly, of course. Nothing does. But there are good reasons for thinking that it would be an improvement on the existing patent regime.

First, it will keep manufacturers from gouging consumers and from taking advantage of the payment system's inability to impose meaningful limits on the amounts they can charge. Second, it will create tailored incentives that encourage researchers to develop valuable new medications. Third, it will enable administrators to fine-tune incentives by making prizes larger when desired medications are not being developed.

What about our open-ended payment system for pharmaceuticals? It needs fixing too. For starters, we should rely more heavily on people purchasing drugs with their own money, rather than rely on insurance to do it. Those who argue that patients can't afford to pay the current inflated prices are right, but the reason that prices are inflated is because of insurance.

To encourage direct payment, consumers should also be free to enter into contracts with insurance carriers that limit the amounts that will be paid for drugs and other medical treatments. The best way to cap drug prices is by letting consumers decide how much insurance they want.

Amarillo Slim was a famous and successful poker player. He is widely credited with the observation, "If you're at a poker table and you don't see a sucker, it's you." The current system makes suckers of us all. President Trump can help us all play to win by embracing prizes, antitrust enforcement, revisions to the FDA approval process and self-pay.

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