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Why does Wall Street love Trump's ineffective drug-price plan?

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After President Trump announced his plan for reining in prescription drug prices, shares in drug companies and pharmacy benefit managers spiked. Why? Based on Trump's campaign rhetoric — drug companies are "getting away with murder," Medicare should bargain down prices, etc. — Wall Street feared that big changes were afoot. But Trump's plan (titled "American Patients First") doesn't propose any big changes, so investors were relieved and stock prices jumped up. Trump even endorsed two policies that could modestly *increase* drug makers' profits.

Start with the subsidies we give drug makers by paying high prices for drugs that are much cheaper abroad. Trump derided this "global freeloading," saying, "It's unfair, it's ridiculous, and it's not going to happen any longer." But his plan attempts to fix the problem by making foreign prices higher — not by reducing prices in the U.S.

But even if the president somehow gets other countries to pay more for prescription drugs, it is Economics 101 that profit-maximizing pharmaceutical companies won't respond by selling their products more cheaply in the U.S. Instead, they'll keep the extra money they extract from foreigners and continue gouging Americans as well.

There are ways to fix this problem. The U.S. could allow drug wholesalers to import generic drugs that have been approved in other developed countries when the price of U.S. generics spikes. It could allow Americans to import prescription drugs from abroad. It could prohibit drug makers from selling their products at higher prices in the U.S. than they do elsewhere. Trump's plan could have included one or more of these ideas or it could have explained why they won't work. It does neither.

What about pharmacy benefit managers? Although the president claimed to hate middlemen and promised that "they won't be so rich anymore," here, too, Trump's plan offers no significant changes. It proposes to base copays by Medicare Part D enrollees on the discounted prices that pharmacy benefit managers pay, instead of the phony list prices the drug makers put out. It also

proposes to cap Medicare beneficiaries' total out-of-pocket drug costs. The plan gives no estimate of the savings the first proposal will generate, and the second proposal will cost Medicare more. Both ideas appear to be small potatoes anyway. In 2015, beneficiaries who exceeded the existing catastrophic threshold spent about \$1.2 billion, a small fraction of the \$110 billion that Medicare Part D shelled out in total for prescription drugs.

Trump's plan also ignores the most obvious strategy for reducing the need for pharmacy benefit managers: moving drugs more quickly from prescription status to over-the-counter or behind-the-counter status. When consumers spend their own money, they shop for deals and generally stay away from goods that are overpriced. These actions pressure manufacturers to bring prices down, and the niche filled by pharmacy benefit managers disappears.

Does anyone think it is an accident that the only overpriced commodities sold in drugstores are branded prescription drugs that are covered by insurance? Making more drugs available without prescriptions would save consumers the cost of doctors' visits, too.

Trump also promised to reduce consumers' out-of-pocket costs. He proposes to accomplish this by eliminating cost-sharing on generic drugs for low-income Medicare beneficiaries and for people who obtain drugs from certain hospitals and clinics through the 340B program. Because these reforms are intended to insulate consumers from drug costs, they are likely to push prices up — not down — by spurring demand and eliminating any incentive to comparison shop. When consumers pay nothing for drugs at the point of sale, they will use more of them and won't care how much money insurers are spending.

Excessive reliance on third-party payment eliminates the natural ceiling on prices that operates in other markets, which is tied to consumers' willingness to pay. This is a primary driver of rising health care costs. By reducing or eliminating beneficiaries' out of pocket costs, Trump's plan will only make this problem worse. To be fair, the plan will cap increases in the prices of drugs covered by Part D at the rate of inflation. This will reduce the magnitude of price hikes for existing drugs, but it won't bring prices down. Nor will it limit the prices that pharmaceutical companies can demand for new medications. This is a serious deficiency because sky-high prices for new drugs are driving up costs significantly.

We've learned the hard way that Medicare will pay whatever price drug companies ask for their products. In recent years, drug companies have introduced breakthrough treatments for hepatitis C at prices in the \$80,000 to \$95,000 range. Some programs limited access to these medications, but not Medicare. Instead, in 2015 it spent \$8 billion on them after spending nothing on them a few years before. Medicare is paying similar amounts for cancer drugs that offer only marginal improvements over existing treatments.

Why is Medicare such a patsy when it comes to drug prices? One important reason is that the Medicare statute prohibits Medicare from negotiating prices. The politics of Medicare are also important. The moment the program refuses to cover an effective medication because of its price, cries of rationing fill the air. From there it's a predictable cycle: AARP packs the halls of Congress with seniors in wheelchairs, and pandering politicians inundate the Centers for Medicare and Medicaid Services with calls and letters demanding that it pay for the drug.

Governmentally provided insurance isn't the solution to our problems; it is the source of our problems.

The best, and probably the only, way to discipline drug prices is to give seniors the power to decide which drugs they want and how much they are willing pay for them. Trump could do this by putting Medicare on a fixed budget and giving the program's dollars to eligible seniors, who would then decide how to spend them. With almost 60 million bargain-hungry seniors shopping for drugs, medical services, and insurance policies, the impact on health care prices and spending would be immediate and enormous.

Trump's American Patients First plan isn't the worst thing we've seen, but it's not going to bring drug prices down. More radical reforms are required to do that.

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