

The Daily Record

No Easy Fix For Rising Drug Prices

Michael D. Tanner

February 28, 2017

Most critics of drug prices focus on Medicare, the largest single purchaser of prescription drugs in the country.

Why not use the government's purchasing power to negotiate a better deal, demanding either lower prices or rebates? Medicaid and the Veterans Administration already do this, but Congress has forbidden Medicare from undertaking similar negotiations.

The congressional ban is probably silly, but the Congressional Budget Office and others have made it clear that negotiating prices is unlikely to achieve significant savings.

That is because the government would lack any real leverage in such negotiations.

In essence, the government's bargaining position would be, "Give us a better deal or we won't let you sell your drug to Medicare patients," which makes a kind of sense. Medicaid and the VA have employed the same strategy, after all, in most cases limiting their formularies to just a single drug — the low-bidder — in each therapeutic category.

But those same seniors who are squawking about the price of drugs would be even more upset if drugs they wanted were suddenly unavailable through Medicare. And given the lobbying power of groups such as the AARP, the government is almost certain to relent.

Even assuming that the government was able to stand up to the political pressure, limit the drugs available through Medicare, reduce drug costs, and save money, there might still be adverse consequences. Some patients forced to switch medications might react poorly to their new prescriptions. The low-bid drug might not be appropriate for everyone.

And such artificial restraints would almost certainly result in less research and development by the pharmaceutical industry. It costs more than \$100 million to bring a new drug to market, with no guarantee of success.

The industry is a reasonably profitable one, earning about 14 percent on average, but it plows much of those profits back into research. Yes, much of the rest of the world imposes price controls on drugs, which is why drugs are cheaper in those countries. It is also why more than half of all new drugs are patented in the United States. Do we really want to forgo the research that may someday cure cancer?

In addition, prescription drugs often substitute for, and reduce, other health-care costs — by, for instance, reducing surgeries or hospital stays. Limiting the availability of prescription drugs, therefore, may do less to reduce overall health-care costs than we think.

None of this is to say that there aren't things we could do to lower prescription-drug costs. We should, for example, radically reform an FDA drug-approval process that is long and expensive and reduces industry competition.

And finally, we can inject more consumer choice into the health care system by expanding health savings accounts and transitioning Medicare to a system of premium support. Nothing more effectively disciplines a market and forces down prices than engaged consumers spending their own money.

*Michael Tanner is a senior fellow at the Cato Institute and the author of *Going for Broke: Deficits, Debt, and the Entitlement Crisis*.*