

NATIONAL REVIEW

Skyrocketing Prescription-Drug Prices Are a More Intractable Problem than the White House Realizes

However much President Trump wants to lower consumer drug costs, his power to do so is limited.

Michael Tanner

February 15, 2017

Keeping track of Donald Trump's shifting policy positions could make even the most balanced of observers dizzy. Take, for example, the president's position on prescription-drug prices. Candidate Trump garnered bipartisan plaudits by criticizing the pharmaceutical industry for the high cost of prescription drugs. Shortly after becoming president, he reached out to Democrats such as Representative Elijah Cummings with a promise to lower drug costs. But not long after that, he met with drug company CEOs and backed away from that promise.

"I'll oppose anything that makes it harder for smaller, younger companies to take the risk of bringing their product to a vibrantly competitive market," Trump said following the meeting. "That includes price-fixing by the biggest dog in the market, Medicare, which is what's happening." Then, last week, White House Press Secretary Sean Spicer reversed the administration's position again, saying that Trump "is going to negotiate prices" in a reaffirmation of the original strategy.

Whatever Trump's stated position of the day may be, he'll soon find out that it is easier to criticize high drug costs than it is to lower them.

No one is particularly happy with the high cost of prescription drugs. It is not just the few outrageous price spikes that have garnered headlines, either: Prices rose more than 11 percent across the board last year and are expected to increase by a similar amount this year. But what mechanism would President Trump use to reverse this trend?

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 with the pharmaceutical industry, 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, thus forfeiting its leverage in negotiations with drug companies.

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 for a program that is at least \$55 trillion in the red, 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 it may not be the newest or most effective treatment for a particular condition. Already, the Medicaid drug formulary is notorious for delays in approving new drugs. And a study by Frank Lichtenberg of Columbia University estimated that the restricted availability of drugs under the VA formulary reduced the average survival of veterans under VHA care by as much as two months.

Nor is it just Medicare patients who would likely suffer the consequences of some form of price controls for prescription drugs. Such artificial restraints would almost certainly result in less research and development being undertaken 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. As currently designed, the FDA process is an enormous barrier to entry, protecting Big Pharma from competition and limiting innovation. It is worth noting that at the time of the scandal over the absurd price increase for EpiPens, two companies had been awaiting FDA approval for their competing products for as long as five years, while in Europe there were three different versions of the product on the market.

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.

President Trump can act like King Canute, standing before a tide of rising pharmaceutical prices and yelling “Stop!” Or he can step back, empower consumers, increase competition, and let the free market do its job. The choice he makes, once he finally settles on one and sticks to it, will tell us a great deal about the future direction of his administration.

Michael Tanner is a senior fellow at the Cato Institute and the author of [Going for Broke: Deficits, Debt, and the Entitlement Crisis](#). You can follow him on his blog, [TannerOnPolicy.com](#).