



The Daily Dish

Getting the Trump Drug Plan All Wrong

DOUGLAS HOLTZ-EAKIN | MAY 14, 2018

Eakinomics: Getting the Trump Drug Plan All Wrong

Friday President Trump announced his [plan](#) to address the costs of pharmaceuticals in the United States. *The New York Times* [coverage](#) was typical: “Mr. Trump largely avoided the issues the industry fears the most, such as allowing Medicare to directly negotiate drug prices, or allowing Americans to import drugs. Investors noticed: Stocks of major drug companies rose after his speech, as did those of pharmacy benefit managers, or the ‘middlemen’ that Mr. Trump said were getting ‘very, very rich.’” Unfortunately, that is exactly backward.

Had the president announced “direct negotiation” or reimportation markets would have been quite pleased. These policies would do nothing to affect drug prices. Let’s do them in reverse order.

Drug prices are lower in other countries (something that the president noted in his speech). Why? Because those countries use the power of government to impose price controls (or their *de facto* equivalent), so that drugs are cheap for their citizens. If they were to allow those same drugs to be sent back to the United States, it would reduce access to pharmaceuticals and raise prices for foreign consumers. Their governments are never going to let that happen. Reimportation has some real safety issues, but even if these were bridged the basic idea remains a fantasy.

The same is true of direct negotiation. How does one get a better deal from a drug manufacturer? By delivering a large volume of business. To do that a prescription drug plan has to sign up a large number of seniors and use its formulary (preferred drugs) to steer them to the preferred drug. That is exactly what happens now. There is a lot of effective, private negotiation (which the president is seeking to strengthen further). What would

happen if the Secretary of Health and Human Services (HHS) inserted himself into these negotiations? Yes, he would negotiate on behalf of seniors. But HHS cannot exclude one drug in favor of another. It simply brings nothing new to the negotiations and would not be able to strike a better deal. That was [true](#) at the birth of the program and remains true today.

In the end, both “negotiation” and “reimportation” are code words for price controls. Investors should fear price controls, as should beneficiaries and everyone else interested in a vibrant, innovative medical therapies sector. The president’s plan consists of several dozen initiatives that are targeted in nature, limited in scope, and need to be judged as a whole.