## The Daily Dish

# Just in Time for Halloween – the IRA Is Back!

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The American realist P.J. O'Rourke once noted: "Giving money and power to government is like giving whiskey and car keys to teenage boys." And P.J. had never met the Inflation Reduction Act (IRA). AAF's Michael Baker has met the IRA, and his latest piece is a meditation on the Pandora's-box nature of the IRA and other government-run close cousins.

The centerpiece of the IRA Medicare reforms is the so-called drug "negotiation" process. The first round of such negotiations simply reminded us that market competition provided greater price reductions than did the coercive hand of government. Moreover, the use of confiscatory taxes to force agreement on the "maximum fair price" for a drug sets a dangerous precedent for similar price-fixing across the economy. And the concerns about the negative impact of price-fixing on the incentives for research and innovation are being borne out. All of this has been summarized in this AAF paper.

Baker notes that the sound and fury surrounding the president's "most favored nation" has distracted the public from the IRA, but that the pricing decisions ("maximum fair prices" or MFPs) for the second round will be concluded by November 1. In particular, the final offers from the Centers for Medicare and Medicaid Services (CMS) to firms for MFPs were due to have already been sent.

What makes this even more interesting is that in a recent press conference regarding fertility drugs, the president went a bit off-script and started opining about GLP-1s:

> *In London, you'd buy a certain drug for $130…and in New York, you pay $1,300 for the same thing. So now we're going to be paying, instead of $1,300, you'll be paying about $150.*

Now, as it turns out the GLP-1 Ozempic is in this round of IRA drug price-fixing, so the president's slip – and CMS Director Oz's hasty attempt to spin it – could be interpreted as a leak of the confidential MFP process.

Or, it could be in error. Which should market participants believe? One doesn't run into this problem in markets: Prices are prices. Not so in a secretive, government-run price fixing scheme.

Or, it could be true. Taken at face value, $150 is a mere 11 percent of $1300, suggesting that the MFP is way lower than the 22-percent reduction from list price that the Biden Administration delivered. Again, taken at face value, an 89-percent reduction in the price of every drug in this round would be a Titanic event for the drug industry.

Or, the president could have another motive. Once you politicize price-setting, there are many possibilities.

As the Baker piece makes clear, there is a better way: competition. Greater competition, not regulation and price-fixing, is the only clear route to adequate supplies at lower prices. It is worth a read.