The Daily Dish

Thinking About Drug Prices

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Yesterday Department of Transportation Secretary Elaine Chao stated that the White House will soon be supplying Congress with details on the president's $1 trillion infrastructure proposal. Chao stated that once the administration provides their version of an infrastructure plan to Congress both the White House and Congress will be able to begin collaborating to come up with a final bill. Chao went on to say that the president envisions $1 trillion coming from public-private partnerships but the administration also plans on providing $200 billion in taxpayer funds.

The American Action Forum released new analysis examining why a military budget focused only on hard power is not sufficient to ensure the safety of the United States. AAF finds that diplomacy and development, or soft power, are essential to national security. Additionally, fully funding America's diplomacy and development efforts, it would represent just 1 percent of the U.S.'s budget.

Eakinomics: Thinking About Drug Prices

The public continues to be unhappy with the costs of prescription drugs, and the president continues to insist that he will do something. But what, exactly, is the problem and how should one think about "solving" it? Here are some thoughts:

1. Identify which of the problems you are solving. There is no general prescription drug "crisis." Indeed, in the vast majority of instances things are working just fine — one of the reasons that drugs continue to be roughly 10 percent of National Health Expenditures (NHE) year after year. Instead, there appear to be two significant, different issues: (a) high costs of some specialty drugs, especially cancer treatments and (b) sharp price spikes for some generic drugs (especially after they are bought by new companies).

2. Remember that the goal is not low cost, it is high value. It is easy to have low-cost drugs; they, however, may not do much good. Conversely, it might make sense to have a pricey

drug if its therapeutic benefits are high enough. This is especially the case of the aforementioned oncology drugs. To increase the ability of markets to deliver the latter, it makes sense to improve the electronic collection of information regarding the usage of such drugs (including off-label prescriptions and any biomarkers used in deciding the course of care) and the outcomes associated with that usage. You can't determine value without knowing what really happens once a drug is out of the lab and into the market. In addition, real value is in the eyes of the ultimate consumer, so patients' preferences in drug performance should be collected and fed into the process as well. Finally, one gets what one pays for — getting value will require innovative payment strategies that deliver reimbursement only as successes are achieved.

3. Remember that high prices can only be solved by more supply. A commonly-suggested "solution" for high drug costs is some sort of government subsidy for purchasers or actual price-fixing to keep the retail cost down. Neither increases the supply of the scarce drug, so neither will generate an outcome that has lower prices and comparable availability. Subsidies simply increase demand and raise prices; price controls ultimately undercut the supply of drugs. If one wants to have lower-cost generics, all roads lead to policies that speed the approval of generics and quickly allow competitors into the marketplace. As a sensible complement to such policies, antitrust authorities ought to be watchful for situations that are an abuse of (temporary) monopoly power.

4. Finally, stop making the problem worse to begin with. Many government policies — from Medicaid best price to the subsequent 340b program and others — inefficiently drive up the cost of prescription drugs. The very first step should be to stop feeding the problem.

In the end, the president does not need a sweeping prescription drug policy. He needs some carefully crafted initiatives in targeted areas. That may be less dramatic than an episode of The Apprentice, but it will do much more good.