



Insight

Health Policy Follies

DOUGLAS HOLTZ-EAKIN | DECEMBER 1, 2015

The Senate is beginning to take up the [reconciliation](#) bill that would repeal significant portions of the Affordable Care Act. Unfortunately, it also opens the door for all sorts of misguided health policy initiatives, including meddling with the highly successful [Medicare Part D drug program](#).

Given the political setting, this is perhaps unsurprising. The front page of Tuesday's *Wall Street Journal* features a lengthy article on the price of pharmaceuticals in the United States. The presidential campaign highlights heated rhetoric on the cost of drugs and a bidding war for ways the taxpayer should pick up the tab on out-of-pocket costs. It is natural for Senate progressives to get in the game by proposing another shot at the “noninterference” clause in the Medicare Part D prescription drug program. That clause bars the Secretary of Health and Human Services (HHS) from intervening in negotiations between drug manufacturers, pharmacies, and privately administered Part D drug plans.

We've seen this before. The president [proposed](#) to give the HHS Secretary negotiation power. During the budget resolution debate Senator Jack Reed (D-RI) offered an amendment with the purpose of “making prescription drugs more affordable for seniors and for tax-payers by requiring the Secretary of Health and Human Services to negotiate prescription drug costs under the Medicare program.”

The only problem is that it just won't work. The Congressional Budget Office has said [again](#) and [again](#) that the basic premise is just wrong. It won't save money. Specifically, “the Secretary would be unable to negotiate prices across the broad range of covered Part D drugs that are more favorable than those obtained by (Prescription Drug Plans (PDPs)) under current law.”

This is unsurprising. Insurance companies offering drug coverage through Part D negotiate directly with manufacturers to get the best price they can. A lower price benefits the

prescription drug plan directly, but it also allows it to lower premiums to attract seniors. Having lots of seniors gives the drug plan leverage to negotiate lower prices with drug manufacturers looking to build their market share.

Giving HHS the legal authority to “negotiate” directly with manufacturers will produce one of two outcomes. Nothing, because the reality is that the government does not actually have any Part D enrollees nor the leverage that comes with delivering a large market to manufacturers that the plans already exert. Or, price controls.

The reconciliation bill is not going to become law, so one might argue that a vote for government price controls is harmless. Not so. It is always a mistake to let political theater go unchallenged and lead to bad policy.