The Daily Dish

A Work in Progress

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Eakinomics: A Work in Progress

Today the Senate Finance Committee is scheduled to mark up The Prescription Drug Pricing Reduction Act of 2019 (PDPRA). PDPRA — in addition to sounding like hacking up a hairball when you pronounce it — is one response to the political imperative to "do something" on prescription drug prices. As one would suspect when policy objectives collide with political reality, the result is a mixed bag. The markup is an opportunity to clean up — or clean out — some of the less desirable provisions.

The committee should start with the dual provisions "Medicare Part B Rebate by Manufacturers for Drugs or Biologicals with Prices Increasing Faster than Inflation" and "Medicare Part D Rebate by Manufacturers for Certain Drugs with Prices Increasing Faster than Inflation." Remember, in the through-the-looking-glass world of DC health policy, "rebates" are taxes. This pair of tax policies does not make the policy cut. The base of the tax is the difference between the rate of growth of its price and the growth of Consumer Price Index (CPI) inflation, times the number of units sold in Parts B and D, respectively. The tax rate is 100 percent. That's right, 100 percent. In no part of the policy universe is a 100 percent tax rate the answer to a real problem.

Imagine if the tax base were the difference between corn prices and CPI inflation. Would you want a 100 percent tax rate on real farm income? Or, suppose the tax were the difference between the price of labor and CPI inflation. A 100 percent tax on real wage growth?! Translating the tax into the realm of health policy does not change the reality that these are bad taxes. Moreover, they distort the choices between brand name drugs and biologics versus generics and biosimilars. The former are subject to tax, but the latter are exempt. The only way to make a bad tax worse is to apply it selectively.

On top of that, they probably won't work. The whole idea is to lower drug prices, but this tax is just an incentive to launch products at a higher price. Indeed, the price could be high enough to cover the normal rate of return and any expected taxes. In this way the burden would be shifted to insurers and beneficiaries. A better approach is embedded in the "Medicare Part D Benefit Redesign" that provides dual incentives to manufacturers and insurance plans to reduce the incidence of high-cost drugs that push beneficiaries into the catastrophic phase of coverage.

The draft bill also contains a "Modification of Maximum Rebate Amount under Medicaid Drug Rebate Program." In English, this provision is just a tax maximum that is being raised from 100 percent of the price of a drug to 125 percent. In other words, manufacturers would be paying for the privilege of giving away drugs in the Medicaid program. Eakinomics has been through this territory before; the idea has not gotten any better in the interim. Moreover, a look at the research literatures suggest that the Medicaid version of the inflation tax hasn't worked to stop price growth. Taken as a whole, these three provisions look like a policy dead end.

Stepping back, the basic structure of the Part D reforms is to relieve the federal government of a lot of liability for reinsurance costs, but to toss in enough drug manufacturer money to keep premiums from rising. As it turns out, however, the story cannot stop there. The federal government must subsidize roughly 75 percent of the

overall cost of Part D. If reinsurance goes down, then premium subsidies have to go up. The result is that net-of-subsidy premiums will fall. I understand the political allergy to premium increases, but is it really necessary to drive the impact negative?

Something does have to happen on drug prices, and there are core elements of the draft bill that are a good starting point. It will be interesting to see the committee go to work at improving it during the markup.