The Daily Dish

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It was a rough start for the economy this year, only growing at an anemic 0.2 percent during the first quarter. Business investment decreased 3.4 percent and exports dropped 7.2 percent. Some are blaming the slow down on temporary factors such as weather or the west coast ports dispute, but even the 2.2 percent seen in the last quarter of 2014 will not get this economy back to where it needs to be. Advancing TPA through Congress is one initial first step that would allow trade deals to help kick start the economy and improve export figures. AAF's Sam Batkins discusses the economic troubles with Wall Street Journal Live here.

Congressional Republicans unveiled a joint House-Senate budget resolution. According to Reuters, the budget would cut spending by $5 trillion over the next ten years, eliminate deficits by 2024, and "ease a repeal of President Barack Obama's signature health care reform law." The two Senate Committees with Obamacare oversight will each be directed to find $1 billion in savings.

Eakinomics: Don't Panic – Biosimilars and Medicare

Biologics are complex-molecule pharmaceuticals (as compared to the simpler, small-molecule drugs familiar to patients). Biologic drugs are living organisms and therefore cannot be copied in the same way that generic versions of traditional drugs can. However, in an attempt to replicate the success of generic drugs, the Affordable Care Act created a new pathway for the Food and Drug Administration (FDA) to review and approve biologic drugs that are "similar" enough to the original that the FDA can rely on existing efficacy and safety data in approving it.

The hope is that these new products will reduce the cost of valuable treatments. Biosimilars have a track record of lowering costs in Europe and some analyses predict price reductions at 20 to 30 percent. A RAND Corporation analysis projects biosimilars will reduce spending in the U.S. by $44 billion over the next decade.

Here's the catch. The FDA recently approved Zarxio, a biosimilar for Amgen's Neupogen, which is used to treat cancer patients receiving chemotherapy that produces abnormally low white blood cell counts and Zarxio is expected to launch soon. Medicare buys lots of Neupogen so one might expect Zarxio to lower Medicare costs. Unfortunately, the Medicare reimbursement formula could initially lead to a higher base reimbursement rate for Zarxio as compared to Neupogen.

Reimbursements for drugs are based on the average sale price of the drug plus a percentage markup. The former is typically lower than the list price because of rebates and other discounts needed to hit sales targets. Unfortunately, there are no sales for a new product on which to base reimbursement, so Medicare must use the list price for the first six months. Public comments by the company that will manufacture Zarxio indicate it could have a list price nearly identical to Neupogen. If so, it would mean that the overall reimbursement (list price plus percentage markup) would be higher for the biosimilar, not lower, thereby costing Medicare more.

While hardly an ideal outcome, this is a temporary event that stems from the reimbursement formula. The policy lesson is: do not panic. That is, don't try the administration's approach of cutting the intellectual property protection of biologics, or price-fixing. Instead, let competition between the original, Zarxio, and other new

biosimilars deliver actual sales prices that will take care of the problem and lower Medicare costs in the future.