



The Daily Dish

## August 30th Edition

DOUGLAS HOLTZ-EAKIN | SEPTEMBER 30, 2015

[Unless Congress passes](#), and the president signs a funding bill by midnight tonight, agencies of the federal government go into shutdown mode. This means furloughs for non-essential employees at federal agencies and strict priority lists for spending until a resolution is reached. Yesterday the Senate passed a measure that would avoid a shutdown and fund the government through December 11.

Airbnb and other parts of the online gig economy were big winners from last week's visit by the Pope. According to the [Wall Street Journal](#) "Airbnb increased [New York's] lodging supply by about 17%. Philadelphia saw a nearly 16% increase in accommodations last week." One hotel CEO said that the impact of these companies is that now hotels have lost the "ability to price at maybe what the customer would describe as sort of gouging rates..." [Research from AAF](#) found that since 2009 apps like Uber, Lyft, and Airbnb have added over \$500 million to the economy.

ICYMI: AAF President Douglas Holtz-Eakin testified before the Senate Finance Committee on the impending Puerto Rico financial crisis. [Read his testimony here](#) or [click here for the video](#) of the hearing.

### *Eakinomics: Quality Journalism, Notthat*

Years ago, as a professor at the Syracuse University I decided to teach a course entitled "Economics in the Media" in the Newhouse School of Communications. The idea was spawned by the realization that I might do more social good by producing a single economically literate journalist than 20 economics majors a year. I promise you that [this](#) author did not take my class. More generally, there is more economically illiterate writing on pharmaceuticals and biologics than probably any other single policy topic.

The article makes mistakes at both the micro level and in the aggregate. On the topic of the former, "The true cost — what drug makers have to spend to get those pills to your local pharmacy — is made up of the active ingredient and other chemicals, their formulation into a pill, packaging, shipping and a profit margin." STOP. Profits are not a cost. Putting profits in a measure of "true" cost makes as much sense as adding your checking account deposits to a measure of total withdrawals.

But it gets worse. The remaining elements of "true cost" are a serious mistake as well, that leads to nonsensical statements like "For instance, the analysis figures the true cost of a year's supply of Gleevec (generic name imatinib), used to treat certain kinds of leukemia, at \$159. But the yearly price tag for Gleevec is \$106,322 in the U.S. and \$31,867 in the U.K." Why? Drug formulations don't appear out of nowhere. They require research (a cost), testing (a cost), clinical trials (a cost) and all the other components of the drug development pipeline. These are the big ("true") costs of pharmaceuticals. The comparisons in the article are economic nonsense.

Consider an example of the latter. "Overall prices for cancer medications have been going up at a fast clip. Dr. Peter B. Bach of Memorial Sloan Kettering Cancer Center in New York has documented a nearly 100-fold increase in cancer drug prices since 1965 after adjusting for inflation." Maybe, but here is the question: would you rather have the 1965 drug or the modern drug? Clearly there has been an enormous increase in the quality

— the efficacy, safety, reduced side effects — of drugs in the intervening half century. Price comparisons that do not adjust for quality are apples-to-oranges mismatches that don't reveal anything about cost trends.

Good policy development requires good information about the nature of the problem and good public education on the issue.

### ***From the Forum***

[Congressional Testimony: The Budgetary and Economic Outlook for Puerto Rico](#) by Douglas Holtz-Eakin, AAF President

### ***Fact of the Day***

[In 2011, small- and medium-sized U.S. businesses did \\$247 billion of export business with TPP nations.](#)