The Daily Dish

Pro-Leech Drug Policy

DOUGLAS HOLTZ-EAKIN | SEPTEMBER 20, 2019

Eakinomics: Pro-Leech Drug Policy

Speaker Nancy Pelosi made public her prescription drug proposals yesterday, and they are a recipe for disaster. If these kind of innovation incentives pervaded health care, the state of the art would still be bloodletting by leeches.

Under Pelosi's plan, the Secretary of Health and Human Services (HHS) each year would negotiate the prices for a minimum of 25 drugs, up to a maximum of 250. Basically, any drug that is still on patent — such that there are no generic or biosimilar competitors — is fair game. For perspective, there are typically 30-35 new drugs each year, so going forward every single new drug will end up in the Pelosi Regime. In that regime, the maximum price of a drug would be set by statute as 120 percent of the (volume-weighted) average of prices in six countries: Australia, Canada, France, Germany, Japan, and the United Kingdom. This price would apply to Medicare and Medicaid and …. well, everything. After it leaves patent protection and faces generic/biosimilar competition, the price could then rise no faster than inflation. That price will be the government-set, controlled price for every drug as far as the eye can see, regardless of the population's therapeutic needs or the underlying bio-pharma economics.

But what happened to negotiation? Now, my online dictionary defines negotiation as "mutual discussion and arrangement of the terms of a transaction." Here, the "negotiation" consists of first setting the maximum price, from which there would be no reason for any manufacturer to go lower. The HHS Secretary, however, is ordered to factor development costs, production costs, therapeutic value, alternatives, and sales into the "negotiation." If a manufacturer does not enter into "negotiations" — i.e., accept the Secretary's evaluation of these various factors — they would be taxed on gross sales at a rate that starts at 65 percent and reaches 95 percent in a year. Similarly, if a drug price rises faster than inflation (including measuring ex post from 2016), the manufacturer has a 100 percent tax on those revenues above inflation. (I'm sure that if I scrubbed the footnotes, ponying over your firstborn is in there, too.)

This isn't negotiation. This is paupers begging for some crumbs. And it destroys innovation incentives. Why devote risky capital to developing drugs? There will be lots of other opportunities in the economy that offer a fair rate of return.

Tossed in to distract are variations on some sensible Part D reforms proposed by AAF's Tara O'Neill Hayes. But politically motivated policy proposals are often dressed misleadingly. Make no mistake: This plan is a honey badger dressed up in a wolf's clothing.