The Daily Dish

The Administration’s Plan for America’s Families

DOUGLAS HOLTZ-EAKIN | APRIL 26, 2021

Eakinomics: The Administration’s Plan for America’s Families

This week the Administration is expected to roll out its “American Families Plan,” (AFP) the bookend to the “American Jobs Plan” (AJP). Unlike the ludicrously misnamed American Rescue Plan and the cleverly marketed AJP, the AFP will share those efforts’ undisguised intent to bloat the size and scale of the federal government. And it will also share their low marks for fiscal policy. The AFP is expected to feature increases in the top marginal tax rate, higher tax rates on capital gains in life and at death to (in part) finance subsidies to consumption. Like the AJP, the plan for American families is poor growth and stagnating standards of living.

But that is not all. The coup de grace of bad policy ideas has been Title I of H.R. 3 “Elijah E. Cummings Lower Drug Costs Now Act,” which has been introduced has H.R. 3 in each the past two Congresses. The key feature is setting the price on the top 250 costliest drugs in Medicare and applying those prices to the entire pharmaceutical market. To begin, the price would be capped at 120 percent of the average price in other developed countries. At that point, the Secretary of Health and Human Services could enter into a negotiation about the drug’s price. Or the manufacturer could not. Unfortunately, the incentive to negotiate is that if a manufacturer does not, it will be subject to an excise tax of up to 95 percent of the sales receipts. The tax is non-deductible, so the total tax rate will be over 100 percent. As Eakinomics noted the last time around, “Now, if you do a little price-fixing (120 percent of the international average) followed by a little extortion (negotiate or face a confiscatory tax), you can save some money. CBO estimates that the savings to Medicare Part D will be $345 billion, roughly 25 percent.”

In the American Family Plan, that is the payoff to the architects – more cash to finance their progressive agenda. But for the American family the real plan is to stifle the kind of innovation that has made the United States the location of the most advanced medical therapy on the globe. As CBO dryly put it: “The lower prices under the bill would immediately lower current and expected future revenues for drug manufacturers, change manufacturers’ incentives, and have broad effects on the drug market.”

The real concern should be the impact on innovation and the quality of therapies in the United States: “In the short term, lower prices would increase use of drugs and improve people’s health. In the longer term, CBO estimates that the reduction in manufacturers’ revenues from title I would result in lower spending on research and development and thus reduce the introduction of new drugs.”

That doesn't have to be the plan for American families. Title III of the very same act is reforms to Medicare Part D. The changes to the benefit structure are similar to the proposal first put forward by AAF in 2018 and were included in bills from all sides in both the House and the Senate. The basic ideas are to provide beneficiaries an out-of-pocket cap, reduce the government's reinsurance liability in the catastrophic phase, and requiring drug manufacturers to pay a share of the costs incurred in the catastrophic phase. The latter would increase the incentive for the manufacturer and insurer to negotiate prices that keep people out of the catastrophic phase of their insurance policy.

If something "must" be done about drug prices, why not something that eases financial pressure on families and seniors, strengthens the incentives in the best-functioning entitlement program, and still saves some money?