Should Medicare be Allowed to Negotiate Drug Prices?

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Repository Citation

Davis, Michael H., "Should Medicare be Allowed to Negotiate Drug Prices?" (2016). Law Faculty Articles and Essays. 841.
http://engagedscholarship.csuohio.edu/fac_articles/841

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Recent high-profile Senate hearings have highlighted a phenomenon many Americans know well: the soaring price of prescription drugs, some needed to keep patients alive. New blockbusters routinely cost more than $100,000 for a course of treatment, and similar “me too” drugs for the same conditions later launch at almost identical prices. Drug manufacturers blame the rising cost of research and development, but critics blame excessive profit-seeking and exorbitant marketing budgets. Meanwhile, prices for some common, decades-old generics also are rising as competition in that part of the industry collapses. The price of the antibiotic tetracycline, for example, rose more than 7,500 percent in two years. A majority of Americans say keeping drug prices affordable should be the top national health care priority, and all three remaining presidential candidates have promised relief. To help slow the rising costs, states are introducing bills and ballot measures to require drug makers to disclose their actual costs and, in some cases, cap prices.
THE ISSUES

- Do high development costs justify soaring drug prices?
- Should patent rights be changed?
- Should the United States adopt cost-containing measures used in other industrialized countries?

BACKGROUND

“Patent” Medicines
Some 19th-century companies hawked secret, addictive nostrums.

Patent Puzzles
Laws passed in the 1980s commercialized and expanded drug-patent rights.

Seeking Alternatives
Policy makers sought to curb rising prices and copycat drug development in the 1990s.

CURRENT SITUATION

Price Controls
At least 11 states are considering bills to raise pricing disclosure requirements.

Sticker Shock
Makers of expensive hepatitis C treatments face scrutiny over pricing.

Congress Debates
Democratic House members seek to withdraw companies’ marketing rights to unreasonably priced drugs.

OUTLOOK

Good News, Bad News
Forthcoming groundbreaking drugs likely will have high costs, experts say.

SIDEbars and GRAPHICS

Drug Spending Continues to Climb
Outlays are expected to expand through 2024.

Medicare’s Share of Drug Bill Soars
The federal insurer covered 29 cents per dollar spent in 2014.

Majority Backs Stiffer Price Rules
Three in five Americans say government should further regulate drug prices.

Chronology
Key events since 1905.

Drug Ads Cause Headaches for Physicians
Critics, manufacturers differ on whether TV commercials help consumers.

Drug-Vial Waste Costs Billions
“This is a calculated way of increasing revenue.”

At Issue:
Should Medicare be allowed to negotiate drug prices?

FOR FURTHER RESEARCH

For More Information
Organizations to contact.

Bibliography
Selected sources used.

The Next Step
Additional articles.

Citing CQ Researcher
Sample bibliography formats.

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CQ Researcher (ISSN 1056-2056) is printed on acid-free paper. Published weekly, except: (March wk. 4) (May wk. 4) (July wks. 1, 2) (Aug. wks. 2, 3) (Nov. wk. 4) and (Dec. wks. 3, 4). Published by SAGE Publications, Inc., 2455 Teller Rd., Thousand Oaks, CA 91320. Annual full-service subscriptions start at $1,151. For pricing, call 1-800-818-7243. To purchase a CQ Researcher report in print or electronic format (PDF), visit www.cqpress.com or call 866-427-7737. Single reports start at $15. Bulk purchase discounts and electronic-rights licensing are also available. Periodicals postage paid at Thousand Oaks, California, and at additional mailing offices. POSTMASTER: Send address changes to CQ Researcher, 2000 Virginia Ave., N.W., Suite 600, Washington, DC 20037.
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WRITTEN FOR CQ RESEARCHER, MAY 2016

As the health care cost curve in the right direction will require new mechanisms to control drug prices.
Drug spending in the United States increased 12 percent in 2014, faster than nearly every other health care spending component and the highest rate in more than a decade. Overall, Medicare spending grew 5.5 percent, but drug spending grew 16.9 percent, hardly a sustainable rate.

Medicare is the largest purchaser of drugs, with 39 million individuals enrolled in Part D plans that help pay for prescriptions. Yet a recent study by Marc-André Gagnon and Sidney Wolfe reported that the program pays 73 percent more than Medicaid and 80 percent more than the Veterans Administration for brand-name drugs.

Be that as it may, both agencies negotiate with drug companies for price discounts.
The Medicare Drug, Improvement, and Modernization Act of 2003 created prescription drug coverage through the Medicare Part D program but specifically prohibited Medicare from negotiating lower prices for drugs. The result has been that these have gone unheeded. Some opponents to negotiating Medicare drug prices fall back on hackneyed arguments that the pharmaceutical industry has used for years whenever the issue has come up: that negotiation would stymie innovation and limit access to medications. Others question whether the government could successfully negotiate lower prices. But these arguments assume the government cannot change and enforce laws to ensure the necessary leverage for negotiating reasonable prices. The arguments also violate the principle that price should — and, in fact, must — be subject to the free market when a patent expires.

To pretend that negotiation will discourage progress violates every economic rule we know. Negotiation is how two parties reach a mutually advantageous compromise. Plus, we know that excess monopoly profits, from which Big Pharma [the Pharmaceutical Research and Manufacturers of America] has “suffered” for decades, do not lead to greater research but rather to higher dividends and greater market concentration through acquisition of competitors, a guarantee of even more inflated prices.

Monopoly drug pricing, particularly in the Medicare program, can only be called corporate welfare. The American public has had enough. A national survey conducted by the Kaiser Family Foundation in August 2015 reported that 85 percent believe the government should directly negotiate drug prices for Medicare beneficiaries. This is a step long overdue.

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WRITTEN FOR CQ RESEARCHER, MAY 2016

Presidential candidates and members of Congress often recommend having the government negotiate for drug discounts on behalf of the Medicare program. Most recently, presumptive GOP presidential nominee Donald Trump joined Vermont Sen. Bernie Sanders and Democratic front-runner Hillary Clinton in supporting negotiations.

The typical proposal is to allow the secretary of Health and Human Services (HHS) to negotiate with prescription drug manufacturers on behalf of the Medicare Part D program — something banned by the so-called “noninterference” clause in the 2003 Medicare Modernization Act. This idea is hardly new. It arose during discussions over passage of the law, and the Congressional Budget Office, Congress’ nonpartisan budget analysis agency, noted at the time that getting rid of the noninterference provision would have a negligible impact.

This is hardly surprising. Drug companies negotiate annually with prescription drug insurance plans. Those plans go into the negotiations with some strong leverage: a formulary, or list of drugs offering the greatest overall value, that can be used to favor a drug company’s products and millions of customers who could be delivered to the drug company or, faced with too high a price, its competitors. Adding HHS to the mix does not change that leverage. Here’s how such a negotiation would go:

HHS Secretary: I’d like a discount on your prescription drugs.
Drug Manufacturer: What do you have to offer?
HHS Secretary: I can guarantee millions of senior citizens as customers; shouldn’t I get a discount?
Drug Manufacturer: What is your formulary like?
HHS Secretary: I don’t have one. We can’t discriminate.
Drug Manufacturer: Sorry, the prescription drug plans have already guaranteed us the customer base, promised to treat our drugs favorably in the formulary, and we’ve given them the discounts. What else have you got?
HHS Secretary: Uh, a used copy of healthcare.gov?
Drug Manufacturer: We are done here.

The private-sector prescription drug plans already have all available market-based leverage. Of course, the government can do one thing that the private sector can’t: impose price controls. Thus, many suspect that a call to repeal the noninterference clause is really just a stalking horse for price controls. Price-fixing never works, will hurt innovation and restrict the availability of valuable therapies.

Medicare Part D is not broken. It is the best-functioning entitlement program, and adding secretarial negotiation would be far from fixing it.

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May 20, 2016

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