

Source Shorts: White House Releases Report on Drug Pricing

On Friday, February 9, 2018, the White House released a [report](#) from the Council of Economic Advisers (CEA) entitled “Reforming Biopharmaceutical Pricing at Home and Abroad”. The report identifies two seemingly conflicting goals of the current administration: 1) reducing domestic drug prices and 2) spurring economic investment in medical innovation. These goals appear to conflict since lower prices would likely mean lower profits for drug companies, resulting in lower investment in research and development. The report also accuses foreign governments of eroding global returns for investment in pharmaceuticals, stating: “nations are free-riding, or taking unfair advantage of the United States... Governments across the world rely on America’s patients and taxpayers to finance critical research and development.”[\[1\]](#) As a result, the report suggests that reducing domestic drug prices might not decrease investment in research and development if prices for other countries were more commensurate with the cost of innovation.

The report identifies factors and policies at several federal agencies that prevent healthy price competition among pharmaceuticals and offers recommendations to combat rising drug prices.

- *Medicaid*: In Medicaid, the “best price” requirements and mandated rebates give pharmaceutical manufacturers an incentive to inflate prices in the private sector so that they can collect higher prices from the large Medicaid customer base, which prevent them from offering lower prices to lower-income patients in the

private sector. The CEA suggests that the Centers for Medicare and Medicaid Services (CMS) reconsider the way it calculates the best price and provide more guidance on value-based purchasing.

- *Medicare:* Medicare Part B covers drugs administered by a physician and reimburses physicians with a percentage of a drug's price. The Source has previously explored the [problems with this reimbursement system](#). The CEA proposes moving drug coverage from Medicare Part B to Part D. Medicare Part D covers the majority of out-patient prescriptions and has a better structure for price-competition. The CEA also proposes changing the requirements for formularies in Medicare Part D and lowering co-pays for generic drugs to increase competition among drugs covered by those plans.
- *Other:* The report also suggests allowing the Food and Drug Administration (FDA) to expedite the review of more drugs, including the 2nd and 3rd drug in a therapeutic class, increasing competition in the pharmacy benefit manager market, and tightening eligibility requirements for the 340B program.

Most of these suggestions follow similar ones proposed in the [report](#) by the National Academies entitled "Making Medicines Affordable: A National Imperative", previously [discussed](#) on the Source. A noteworthy difference between the two reports is the blame the CEA's report places on other countries for the high prices paid by Americans. The CEA estimates that more

than 70 percent of the profits from pharmaceuticals come from sales to U.S. patients, even though the United States only represents 34 percent of purchasing power of the Organisation for Economic Co-operation and Development (OECD).^[2] Surprisingly, the report does not call for re-importation of drugs from other countries which would allow Americans to purchase FDA-approved drugs from other OECD countries including Canada. While President Trump has called for drug re-importation as a way to battle high drug prices in his election campaign and while in office, the CEA report only issues a vague recommendation to “take actions that change the incentives” for countries that price their drugs below levels that would “appropriately [reward] innovation.”^[3]

The recommendations in the report may be more aspirational than practical. For example, the report calls for increased competition among pharmacy benefit managers, but does not give any specifics about how to increase competition. Nonetheless, the fact that the Trump Administration issued a 30-page report and appointed [Alex Azar as Secretary of Health and Human Services](#) signals renewed focus on combating high drug prices.

^[1]

<https://www.whitehouse.gov/wp-content/uploads/2017/11/CEA-Rx-White-Paper-Final2.pdf>

^[2] The U.S. represents 34% of the total Gross Domestic Product (GDP) at current Prices and Purchasing Power Parities (PPP). *Ibid* citing “Organization for Economic Cooperation and Development (OECD). 2016. National Accounts.”

^[3] *Ibid* p. 15.