



Counting the Cost of Prescription Drug Price Controls

by Lawrence W. Reed

Summary

Many politicians are calling for government price controls as a way to keep prescription drugs affordable for senior citizens. But price controls in Canada and other countries where they have been tried have only resulted in rationing and higher prices for life-saving drugs. A better solution is to expand the use of tax-free Medical Savings Accounts so more seniors can pay for the drugs they need.

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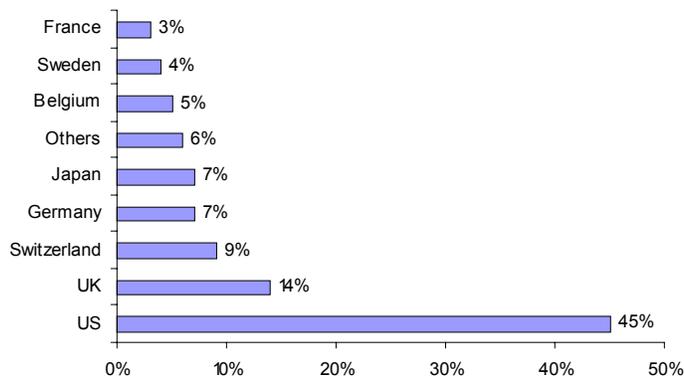
To hear the talk from Washington, the country faces a “crisis” of some kind about once a month and the “answer” is almost always more government, even when government is the source of the problem. The latest concerns the cost of prescription drugs for senior citizens, an issue that shows every sign of becoming a major election-year battle. But if proposals to impose price controls prevail, this “crisis” will surely become a disaster.

There’s one proposition with which nearly everyone can agree: the elderly need coverage for prescription drugs. Dr. John Goodman of the Dallas-based National Center for Policy Analysis reveals that “Medicare violates almost all principles of sound insurance. It pays too many small bills the elderly could easily afford on their own, while leaving them exposed to thousands of dollars of potential out-of-pocket expenses, including the cost of their drugs.”

Goodman and many other health policy analysts recommend that we solve this problem by dramatically expanding “Medical Savings Accounts,” or MSAs. Those accounts, now severely limited by law, would allow all citizens to set aside savings tax-free for the purpose of paying their smaller medical bills. As those savings grow, individuals could purchase health insurance with ever higher deductibles (which makes those policies ever less expensive). Senior citizens could also be permitted to tap into their Individual Retirement Accounts (IRAs) to help cover medical expenses that are not now paid for by either Medicare or the “Medigap” policies many seniors buy to supplement Medicare.

In addition to MSAs, it’s likely that other reforms, including changes in Medicare, would be required to give the elderly the peace of mind they need, but under no circumstances are price controls a solution.

U.S. Leads in Development of New Drugs



Source: Pharmaceutical Research and Manufacturers of America, cited in National Center for Policy Analysis Policy Report No. 230, October 1999

The United States, unburdened by widespread price controls on prescription drugs, develops nearly half of all the world’s innovative drugs.

Price controls would inevitably stifle innovation in the pharmaceutical industry, just as they have done every time they have been applied to any business. When bringing a new drug to market, manufacturers encounter countless failures, an essential part of the process that ensures the quality of the final product. Frequently, the profit gained on a particular drug is used to finance the research and development of another. One prominent bill in Congress (HR 664), introduced by Tom Allen of Maine and supported by many members of Michigan's congressional delegation, would effectively fix prescription drug prices by federal decree. It would cripple the industry's ability to attract capital and cover the costs of innovation and meeting the government's new drug approval requirements.

Anyone interested in access to life-saving medicines should also understand that price controls boost demand and stifle supply, which always lead to rationing. Do we really want bureaucrats deciding who gets what drug?

The push for price controls comes from a misreading of the marketplace. Critics rarely cite the fact that more than 70 percent of Medicare beneficiaries spent less than \$500 from their own pockets for prescriptions last year. Instead, those critics point to the fact that the total of money spent on drugs last year rose by roughly 18 percent. But that's not the same as saying the cost of any one drug rose by 18 percent. In fact, most of the increase in money spent on drugs came from a big increase in demand as people utilized new drugs in place of more expensive and traditional medical procedures.

For example, surgery for ulcers was once commonplace but now because of new and better drugs it has almost disappeared. A recent study found that every dollar spent on medical drugs translates into a *decline* of four dollars in spending on care in hospitals.

Price control advocates point out that people can buy certain drugs for less in Canada, where the government fixes prices, than they can get the same drugs for in America. They fail to notice that Canadians are routinely denied access to newer and better medicines, and often travel to America to purchase them. Canadians are often forced to wait up to a year longer than Americans for more advanced medicines, as these drugs move through the price-controlled system of Canadian bureaucracy. The fact is that Canada produces far fewer new drugs than does the United States—in large part because Canada has price controls and America does not.

Whether we have a crisis or not, senior citizens won't get more or better or cheaper prescription drugs if Washington waves its wand and fixes prices. Members of Congress who say otherwise are either ignorant of history and economics, or simply making foolish promises to score political points.

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