

Even Talking About Drug Prices Can Slow Their Rise

By AUSTIN FRAKT

Both Bernie Sanders and Hillary Clinton are pushing for lower prescription drug prices as part of their campaigns. Debates about whether and how to reduce drug prices aren't new. But they rarely lead to legislative success.

Still, the mere threat of government price controls may have a moderating effect on drug prices. There's strong evidence it did so as the ill-fated Clinton administration health plan was being developed in the early 1990s. Today, with the high price of drugs and proposals to address drug prices so prominent in the news, there are early signs it may do so again.

Sara Fisher Ellison, an M.I.T. economist, and Catherine Wolfram, an economist at the University of California, Berkeley, found evidence that pharmaceutical companies reduce growth in drug prices in response to political pressure. In the 1980s and early 1990s, drug prices grew at three times the rate of inflation. But, according to their study, rates of price growth fell to almost precisely the inflation rate by 1993, just as the Clinton health reform plan took shape.

As they are today, drug prices were a significant concern in the first few years of the 1990s and drew the attention of Congress. In 1990, under pressure from members of Congress, Smith-Klein Beecham cut the price of Dyazide — a fluid retention and

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Hillary Clinton speaking about health policy in 1993, a time when a prospect of government price controls seemed to affect drug company actions.

hypertension drug — by 11 percent. In 1991, as Congress considered several price control measures, Merck and Pfizer endorsed voluntary reductions in drug price growth to improve the industry's reputation. In 1990, Merck, Bristol-Myers Squibb, Burroughs Wellcome, but not other big drug companies, favored increasing discounts for drugs sold to Medicaid programs.

The 1993 Clinton health reform plan included a proposal that would have used Medicare's buying clout to moderate prices. Under the plan, Medicare would have added a prescription drug benefit — something it didn't do until 2006 — and directly negotiated discounts programwide — something it has never done.

The prospect of Medicare price controls on drugs got the atten-

tion of pharmaceutical companies and their investors. Between January 1992 and October 1993, as Hillary Clinton's "Health Care Task Force" was considering drug price regulations, pharmaceutical stock prices fell as much as 50 percent.

Ms. Ellison and Ms. Wolfram examined over 100 of the largest revenue-generating brand-name drugs from manufacturers receiving the greatest price scrutiny. They found that large, brand-name drug firms tended to keep drug price growth close to that of overall inflation during this period of political examination. This tendency was stronger for firms likely to be politically sensitive: those with more sales to Medicare-aged consumers and those less likely to face price-reducing competition because of

longer lives left on patents.

In 1993, the main pharmaceutical manufacturers trade group asked the Department of Justice for an antitrust exemption so manufacturers could act in concert to reduce prices, voluntarily. This was denied, but over 20 companies pledged that year to keep drug price growth at or below inflation.

Today, amid continuing growth in the prices of many drugs, there may be early signs of industry sensitivity to political pressure on prices. Just as in the 1990s, congressional scrutiny of drug prices has not escaped drug investors' attention. In September, when congressional Democrats questioned large price increases of Valeant's heart drugs, its stock price fell 16.5 percent.

The drug industry has shown more explicit signs of responding to the pressure. In an unusual move counter to the drug industry's longstanding unanimity, the Pharmaceutical Research and Manufacturing Association — the industry's chief advocacy organization — criticized some "bad actors" that are raising drug prices and hurting the industry's image.

For those outraged by the prices of drugs, there are two ways to think about drug price responses to political pressure. You can view them as short-term cynical moves by an industry. Or, you can view them as consolation prizes.

Drug price control legislation is hard to pass, and many efforts have failed. At least with political pressure, price growth may slow, if only temporarily.