CITIZENS AGAINST GOVERNMENT WASTE

Thomas A. Schatz, *President*
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July 20, 2020

The Honorable Mark Meadows
Chief of Staff
The White House
Washington, D.C. 20500

Dear Chief of Staff Meadows,

On behalf of the more than one million members and supporters of Citizens Against Government Waste (CAGW), and more importantly all U.S. taxpayers and consumers who would be adversely impacted, I urge you to withdraw any proposed executive order regarding foreign reference drug pricing. The United States has been the leader in pharmaceutical development for many years and should not adopt any of the practices that have destroyed European nations' once-held leadership role, particularly price controls, to try to keep drug costs down.

It is difficult to understand why an administration that has been right on so many healthcare issues would continue to advocate for adopting government price controls. Any executive order that would establish the International Pricing Index (IPI) for Medicare Part B and a most-favored-nations clause for any federal pharmaceutical benefit would undermine the administration's deregulatory agenda, open the door to Medicare for All, and hand a victory to those who have been promoting government-run healthcare.

A February 2020 Council of Economic Advisers (CEA) report, "Funding the Global Benefits to Pharmaceutical Innovation" found that the United States and the "biopharmaceutical industry have been critical to improving health worldwide by leading the way in the research and development (R&D) that enables drug discovery." The report also noted that in "contrast, foreign countries often do not make equal investments in the R&D that is necessary to fuel innovation and ensure the economic viability of biopharmaceutical products" and that "foreign 'free-riding' on U.S. investments and innovation in drug development has increased over the past 15 years."

According to a 2006 National Bureau of Economic Research study by Joseph Golec and John Vernon, "European Pharmaceutical Price Regulation, Firm Profitability, and R&D Spending," European pharmaceutical R&D spending in 1986 exceeded U.S. R&D spending by 24 percent. By 2004, the EU trailed the U.S. by 15 percent. While their citizens may have "enjoyed" lower drug costs due to government price controls, they did so by having 46 fewer new European medicines enter the marketplace.

It is not true that adopting government pricing schemes, like the IPI that would tie Medicare B drug pricing to rates paid in 14 countries, including Canada, Japan, and 12 in Europe, would force U.S. biopharmaceutical firms to demand a higher payment from these countries. Such a policy would give tacit approval that price controls work. More importantly, without strong intellectual property (IP) right protections, the incentive would be for many countries to attempt to steal the company's intellectual property and manufacture the new drug themselves.

CAGW agrees that Americans should not be carrying the load for the cost of biopharmaceutical research. That is why we have argued for stronger IP protection in international trade agreements, not only to stop the threat of compulsory licensing, but also have to our trading partners pay their fair share of U.S.-funded research and encourage them to development more life-saving drugs. As the CEA report noted, "Medical R&D investment allows for the development of new treatments and cures. R&D investment is typically supported by returns from total international sales, rather than the sales of a single domestic market."
Rather than taking an unnecessary and dangerous step toward price controls and government-run healthcare, CAGW supports the establishment of a special pharmaceutical negotiator within the Office of U.S. Trade Representative, similar to Sec. 501 of H.R. 3947, the Competition Prescription Drug Act, which you introduced in the 116th Congress. This would be a far more appropriate way to lower drug prices for Americans and encourage more competition across the globe.

Anyone who experienced or studied President Nixon's wage and price controls understands that government interference in pricing is a disaster. In a failed effort to reduce inflation and lower gas prices from August 1971 to April 1974, the Wholesale Price Index (WPI) and the Consumer Price Index increased (CPI) to 12.0 and 7.2 percent, respectively. In the 12 months before price controls were implemented, the WPI was 3.3 percent and the CPI was 4.3 percent.

Government price controls in the Medicaid, the Department of Veterans Affairs, 340B, and the coverage gap in Medicare Part D drug benefit programs have already distorted the pharmaceutical marketplace. Adding an additional layer of a government price control will not lower drug prices and in the long run, will hurt pharmaceutical innovation. We urge you reconsider and withdraw any executive order related to price controls on pharmaceuticals.

Sincerely,

Tom Schatz

cc:

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