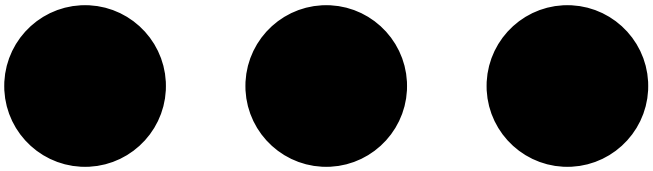
Written by **Michael Tennant** on December 24, 2023

Biden's Inflation Reduction Act Will Hike Prescription-drug Prices, Delay New Drugs

Contrary to its stated goal of reducing prescription-drug prices, the Inflation Reduction Act (IRA) is likely to drive drug prices higher and delay or prevent the release of new drugs, especially those for rare conditions.

"IRA has made perverse incentives, so certain things don't work anymore from a financial perspective," David Epstein, the former CEO of biotech company Seagen, told Bloomberg.



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The problems, as usual, stem from two things: (1) unconstitutional federal programs such as Medicare, and (2) politicians' naïve faith in their ability to legislate away the laws of economics.

The IRA uses Medicare's enormous buying power as leverage to make pharmaceutical companies knuckle under to the government's demands, forcing them to pay Medicare back if their prices rise faster than inflation and to negotiate prices under the threat of a 95-percent tax on their sales should they refuse.

On December 14, the Biden administration announced that during the last quarter of fiscal year 2023, prices of 48 drugs for which Medicare Part B pays had increased faster than the overall rate of inflation, triggering automatic rebates of the difference to the government.

This approach, of course, is based on the typically simplistic reasoning of politicians, who assume that a given inflation rate causes all prices to rise at that same rate. In reality, the distribution of newly created dollars and the resulting changes in supply and demand cause prices of different goods and services to increase at different rates. That drug prices rose faster than the rate of inflation could reflect the fact that the federal government gets new dollars first and, via Medicare, spends them on drugs. It doesn't necessarily indicate that drug makers are gouging taxpayers.

In any event, pharmaceutical companies aren't going to sit idly by and watch their profits be swallowed up by Washington.

"If the drug manufacturer is being forced to offer the drug below the market price, a huge program like Medicare, they're going to have to stop their losses," Robert Moffit, senior research fellow at the Center for Health and Welfare Policy at the Heritage Foundation, told the Daily Caller. "They're going to have to stop their losses, and the only way they can do that is increased prices in the private market."

In other words, private insurers are going to be hit with higher drug prices, which they will pass along to their customers via increased premiums and deductibles. Those without insurance will bear the full brunt of the price hikes.

Future drugs, meanwhile, are likely to be introduced at higher prices than they otherwise would be, enabling their manufacturers to keep subsequent price increases lower to avoid triggering rebates.

"The new 'rebate' provisions of the Inflation Reduction Act are really just reductions in the subsidies drug makers receive from Medicare," Cato Institute director of health policy studies Michael Cannon told the Daily Caller. "The threat of those subsidies will encourage drug makers to set higher launch prices, which won't necessarily increase prices for private purchasers."

The threat that Uncle Sam, like Don Corleone, will make pharmaceutical companies an offer they can't refuse — namely, negotiate lower prices for certain drugs or give me practically all your revenue from those drugs — is already having its own baleful effects.

The IRA "allows Medicare to begin negotiating prices after a specific amount of market time — nine years for pills and 13 for biologic drugs," reported Bloomberg. "That's pushing drugmakers to delay marketing products for small populations and maximize opportunities to treat more patients before prices are reduced."

Roche, for example, is considering delaying seeking Food and Drug Administration (FDA) approval for a new pill to treat ovarian cancer until it can first be approved for prostate cancer. The company's reasoning: There are only about 20,000 U.S. ovarian-cancer cases diagnosed annually, but almost 300,000 prostate-cancer cases. Why sell to a relative handful of patients at the initial price and then to the mass market at a forcibly lowered one?

Similarly, Relay Therapeutics halted its work on a drug for bile-duct cancer, which only affects about 1,000 Americans annually, and "refocused its efforts on a wider range of cancers that could allow use in about 20,000 U.S. patients annually," wrote Bloomberg. "That means an extended enrollment period for a larger study."

"The IRA favors accessing larger opportunities initially versus the conventional approach of speed to market with smaller indications," Relay CEO Sanjiv Patel said on an earnings call earlier this year. "This clearly pushes out our investment on commercial readiness."

Then there's the problem that, as Bloomberg explained, "drugs that treat one rare disease are exempt from IRA negotiations, but those that treat two or more remain eligible." Thus, if a drug maker finds that one of its existing products might also treat another disease, it is discouraged from pursuing FDA approval for that use.

Some drugs may never come to market because the IRA will make them unprofitable. A 2022 survey by the Pharmaceutical Research and Manufacturers of America found that drug companies expected to alter their plans significantly in response to the IRA, including by "cancel[ing] early-state pipeline projects." In June, healthcare consultancy Vital Transformation projected that 139 fewer drugs would come to market between 2026 and 2035 thanks to the IRA.

President Joe Biden has already admitted that the IRA "has nothing to do with inflation." When will he also confess that it has nothing to do with reducing drug prices?