Medicare and the Politics of Prescription Drug Pricing

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The enactment of a new Medicare drug benefit is a milestone in U.S. health policy. Medicare is the nation’s largest health insurer (presently providing coverage for 35 million elderly and six million disabled Americans) and as such, its potential influence on prescription drug pricing is enormous. Moreover, Medicare’s market power will only grow over time; as the baby boomers retire into Medicare, the program’s enrollment will swell to 70 million by 2030. Clearly, then, Medicare’s size and scope give it the power to negotiate or impose lower drug prices for its beneficiaries.

The political question is whether Medicare will exert this influence to control drug prices or, alternatively, will Medicare’s payment policies exacerbate already rising drug prices? The recently passed Medicare drug benefit legislation appears to offer a clear answer: the federal government will not challenge the political power and economic influence of the drug industry. But Medicare’s political history suggests that this outcome may well prove fleeting.

The Politics of Controlling Drug Costs

To be sure, the Medicare drug benefit legislation is in many respects a major political triumph for the pharmaceutical industry. Rather than incorporating drug coverage as part of the traditional Medicare program, the law relies on private plans (including Pharmaceutical Benefits Managers or PBMs) to deliver the drug benefit. In addition, the legislation specifically prohibits the federal government from interfering in negotiations over prices between these private plans and drug companies. Finally, provisions in the original House bill that would have legalized the re-importation of drugs from Canada were badly weakened in the final legislation. Not only then, did the drug industry escape the specter of price controls and re-importation, it gained access to a lucrative and growing-market in the Medicare population, a population that heavily utilizes medications for chronic conditions such as blood pressure, cholesterol, and arthritis.

The success of the pharmaceutical industry in shaping the Medicare drug benefit legislation is a classic political science story of concentrated and diffuse interests. The drug industry is well organized, well-funded, and has the resources and expertise to monitor legislative developments. Their bottom line was at stake in this legislation—threatened both by Medicare price controls and re-importation—and, consequently, they had a concentrated interest in political action to preserve a status quo that they literally profit from. This is a microcosm of the same political dynamic that, thus far, has made it politically impossible to overcome opposition by medical providers and insurers to cost control and universal coverage in American health reform.1

In contrast to the pharmaceutical industry’s political activism, there is little organized political constituency at the national level for controlling drug costs. American consumers may be footing escalating bills for drug expenses and public opinion may favor re-importation, but consumers are a diffuse interest group that is largely unorganized and inattentive to the complexities inherent in legislation like the Medicare drug bill. Consumer groups such as Families USA and Public Citizen do fight for lower drug prices, but they are badly outgunned in terms of funding, organization, and political contacts by lobbying groups such as the Pharmaceutical Research and Manufacturers of America (PhRMA). The AARP does possess the resources to compete with PhRMA and could have fought for tighter cost controls in the Medicare drug benefit to protect the interests of seniors. However, AARP’s desire to pass an imperfect Medicare drug benefit rather than risk getting no benefit along with their desire to demonstrate a willingness to work with a Republican Congress and President that appear likely to be re-elected, meant that the group remained reluctant to use its leverage to secure legislative provisions for controlling drug prices.

In political terms, then, the debate over pricing in the Medicare drug bill was a one-sided affair and it is hardly surprising that the pharmaceutical industry got what it wanted. However, this was more than a simple case of a powerful lobby throwing its weight around. The Republican majorities in Congress, as well as the Bush Administration, oppose price controls on ideological grounds, quite apart from any financial and political ties to drug companies, as an unwarranted intrusion by the federal government into the private sector. These beliefs fit squarely with providing the Medicare drug benefit through private plans and leaving cost control of drug prices to market competition and negotiation by private plans.

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