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Drug Price Controls Mean Fewer Cures

The Inflation Reduction Act is already causing cuts in R&D spending for new medicines.

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President Biden and Kamala Harris plan to celebrate the Inflation Reduction Act's two-year anniversary this week. What they won't mention in their exultation is the damage the law is doing to the development of new medicines.

A portent came last week from Charles River Laboratories, a top research contractor that helps drug makers with clinical trials. The company warned in its quarterly earnings report that pharmaceutical companies are slashing research and development owing to the IRA's drug price controls.

“There are profound cuts” at pharmaceutical companies that reflect a “rapid deterioration” of their business, CEO James Foster said. He added: “A lot of these decisions have been taken relatively recently and probably more to come and haven’t been taken yet.” Might drug makers be hedging their investments because Democrats look more likely to hold the White House?

The IRA let Medicare “negotiate” prices for 10 to 20 drugs a year and a total of 60 by 2029. Negotiate is a euphemism for extortion: Drug makers that don’t participate or reject the government’s price face a daily excise tax that starts at 186% and climbs to 1,900% of a drug’s daily revenue.

The law also requires manufacturers to pay the government rebates on medicines sold to Medicare if they raise prices more than the rate of inflation, and puts them on the hook for more of the entitlement’s Part D costs. Democrats used the resulting estimated “savings” of some $160 billion to pay for the green new deal.

But subsidized solar panels won’t help if you get sick. The inevitable, albeit invisible, result of Democrats’ raid on pharmaceutical companies will be fewer new medicines.

Roche CEO Thomas Schinecker said last summer that “we have decided that we are not going to do certain trials, or that we are not going to do a merger or acquisition or licensing [deal] because it is becoming financially not viable.” AstraZeneca also warned that it might delay launching some cancer medicines because of the IRA.

Normally, drug makers seek to launch medicines that have multiple potential indications in the market in which they can be developed fastest—often those for small populations and rare diseases since those trials don’t have to be as large. Similarly, medicines are usually tested as secondary therapies for diseases before becoming first-line treatments.

But the IRA encourages companies to develop medicines first for larger populations to maximize revenue before they become eligible for Medicare price controls—seven years after government approval for small-molecule drugs and 11 for biologics. This means that treatments for diseases affecting smaller populations may never be developed.

The incentives are especially perverse for cancer drugs since it can take a decade before they become first-line therapies. Only then do drug makers recover their investment, but price controls may prevent them from doing so. Bristol Myers Squibb told StatNews last September the IRA prompted it to discontinue research into a first-line treatment for multiple myeloma.

Drug makers also have less incentive to pursue studies for follow-on indications of existing medicines. While the IRA exempts orphan drugs for rare diseases from price controls, the drugs lose this dispensation if they are approved for other indications. Why spend hundreds of millions of dollars on a study if there might not be a payoff?

Some 90% of drug candidates fail in clinical trials, and manufacturers sometimes never recoup their investment on even those that are approved. They use profits from their few commercial successes to finance research and development into new medicines and to compensate investors. The IRA threatens this risk-reward model.

At the same time, many drug makers face a looming "patent cliff" on older medicines that could bring more generic competition. As the Charles River CEO explained, companies usually boost R&D when this happens so they can replenish their pipeline of novel medicines. Instead, they are cutting back because of the IRA and perhaps worries that Ms. Harris would double down.

The Biden-Harris Administration has proposed increasing the number of medicines subject to Medicare price controls to at least 50 a year and extending IRA inflation rebates to private plans to finance new entitlements. Tim Walz has gone further as Governor of Minnesota by establishing a government board to fix drug prices for all payers.

"Beating Big Pharma," as Mr. Biden says, may get some cheers, but it won't improve Medicare's finances or even necessarily save patients money since prices are already negotiated by insurers. Democrats' goal is to expand government control over private health markets and generate more money to finance their cradle-to-grave society.

Donald Trump and Republicans might explain to voters that Democrats want to trade future Alzheimer's treatments for free college.