**Imposing Price Controls on Drugs is a Bad Prescription**

By Justin Vélez-Hagan, Ph.D.

Congressional Democrats have their hearts in the right place as they work to pass the Inflation Reduction Act, which would supposedly lower drug prices and avert sharp premium increases under the Affordable Care Act. But their heads should tell them they've hit on the wrong approach as the Federal Reserve struggles to get inflation under control.

It's easy to see why the two policy objectives are politically popular. Unfortunately, they don't mesh very well.

Covid-era Obamacare premium subsidies are due to expire in January, so extending them would call for additional government spending starting in 2023,[[1]](#footnote-0) which would only increase inflationary pressures. Democrats want to cover this expense with revenue from what they say is an inflation-fighting measure: allowing Medicare officials to negotiate with drug makers for lower prices. [[2]](#footnote-1)

But price negotiations wouldn't start until 2026, well beyond the timeframe economists expect to see abnormally high inflation. In the meantime, the spending in this legislation would counter policy efforts to reduce prices.

Even if the timing were right, however, the notion of price negotiations as an inflation-buster is a red herring. While costs at the pharmacy counter are indeed too high, prescription-drug prices themselves have not been a driver of inflation. They rose a modest 2.46% between June 2021 and June 2022.[[3]](#footnote-2)

Characterizing the proposed negotiations as anti-inflationary is a late-arriving rationalization for a policy change many have long sought, due to their belief that drug companies make excessive profits.

Our lawmakers are also failing to heed warnings about the effect of price controls on pharmaceutical research and development. One University of Chicago study found that for every 1% reduction in industry revenue, spending on research and development would decline by 1.5%.[[4]](#footnote-3) In short, fewer new medications would be funded and developed.

The more immediate problem, though, would be the new spending required to extend ACA subsidies. The extension would cost the federal government more than $210 billion over 10 years, according to the Congressional Budget Office.[[5]](#footnote-4) The bill attempts to obscure the true cost by sunsetting the extension after just three years -- but once they were enacted, a future Congress would undoubtedly try to prolong them.

The rate of inflation soared to 9.1% in June -- a 40-year high.[[6]](#footnote-5) In New Jersey and across the nation, prices are spiking for just about everything, from gasoline to groceries.[[7]](#footnote-6) Increasing government spending even more would only make the problem worse.

Small-business owners in New Jersey are feeling the pinch. In an effort to stay afloat and avoid layoffs, many have had to raise prices.

But as a result, summer businesses aren't seeing as many customers. Cash-strapped vacationers can't travel to the Jersey Shore. Those who do stay for shorter periods, and are more apt to pack lunches to avoid rising prices at restaurants.[[8]](#footnote-7)

Worse, businesses are about to be hit by a state tax hike[[9]](#footnote-8) that will extract $250 million more from them this year, and an additional $600 million during the next two years. Not surprisingly, New Jersey ranked only 42nd in a new CNBC study rating states by business-friendliness.[[10]](#footnote-9)

Piling on more government spending will only make matters worse as the Fed increases interest rates to get a grip on inflation. The Senate should reject the ill-timed -- and poorly named -- Inflation Reduction Act.

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1. <https://www.nytimes.com/2022/07/15/upshot/build-back-better-health-care-biden.html> [↑](#footnote-ref-0)
2. <https://www.cnn.com/2022/07/15/politics/biden-build-back-better-manchin/index.html> [↑](#footnote-ref-1)
3. <https://www.wsj.com/articles/inflation-tracker-cpi-data-prices-11657717467> [↑](#footnote-ref-2)
4. <https://cpb-us-w2.wpmucdn.com/voices.uchicago.edu/dist/d/3128/files/2021/08/Issue-Brief-Drug-Pricing-in-HR-5376-11.30.pdf> [↑](#footnote-ref-3)
5. <https://www.crfb.org/blogs/house-aca-plan-will-cost-almost-600-billion-and-cover-4-million-people-cbo-finds> [↑](#footnote-ref-4)
6. <https://www.cnbc.com/2022/07/13/inflation-rose-9point1percent-in-june-even-more-than-expected-as-price-pressures-intensify.html#:~:text=The%20consumer%20price%20index%2C%20a,going%20back%20to%20November%201981>. [↑](#footnote-ref-5)
7. <https://www.northjersey.com/story/news/2022/03/10/nj-inflation-rate-gas-grocery-prices-ukraine/6986010001/> [↑](#footnote-ref-6)
8. <https://newjersey.news12.com/inflation-rates-hit-40-year-high-soaring-costs-eating-into-jersey-shore-small-businesses-bottom-lines> [↑](#footnote-ref-7)
9. <https://www.nj.com/opinion/2022/06/they-got-battered-by-covid-at-least-protect-small-businesses-from-tax-hikes-editorial.html> [↑](#footnote-ref-8)
10. https://www.cnbc.com/2022/07/13/americas-top-states-for-business-2022-the-full-rankings.html [↑](#footnote-ref-9)