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## *Two Frequently Asked Questions*

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## *Two Frequently Asked Questions*

1. Is the policy process really rational?
2. Does this apply internationally?

# *Is the Policy Process Really Rational?*

- Yes
  - Considerable analytic work is involved in getting an issue on the agenda and during the actual debate
- No
  - Other issues often intervene
- I will illustrate with a recent example

# *Should Medicare Negotiate Directly with Drug Companies?*

- Background: The Medicare Modernization Act of 2003
  - Congress expressly prohibited the executive branch from negotiating directly with drug companies
  - Negotiations were only permitted between private drug plans (PDPs) and drug companies
- Rationale
  - Private sector can negotiate a better deal than the government

# *Doughnut Hole*

- Because there was not sufficient money available in the Medicare drug benefit to offer comprehensive coverage, a gap in coverage (doughnut hole) was created so that total spending was below a certain level
- A doughnut hole meant large out of pocket spending by Medicare beneficiaries who used pharmaceuticals

## *Democrats Elected in 2006*

- One of their stated objectives was to repeal the provision against direct negotiation of drug prices by the federal government
  - The rationale was both analytic and political

- What type of price negotiation would be permitted?
  - A review of the international experience suggested many different ways to negotiate
  - The Veterans Administration has been negotiating drug prices for many years
  - State Medicaid programs have been negotiating drug prices for many years



- Which negotiation strategy would achieve savings?
- Would that system be possible in the current system of having private health plans selling directly to the Medicare beneficiary?
  - Health plans have different formularies and compete on the formularies

# *Congressional Budget Office*

- The Congressional Budget Office (CBO) tells the Congress whether or not the proposed legislation will save money and, if so, how much
- CBO's position was that unless the executive branch could restrict the formulary no savings would be generated
  - Restricting the formulary would restrict what drugs the private plans could offer and that would fundamentally change the entire program

- 60 votes are needed to stop a filibuster in the Senate and 67 votes are needed to override a Presidential veto
- Two thirds of the House is needed to override a Presidential veto
- President Bush said that he would veto any bill that would give the Secretary power to negotiate
- It was recognized by everyone in Congress that there are not enough votes to override the veto in either chamber

## *Other Concerns*

- Members of Congress know that the legislation will not become law in 2007
- Began posturing for 2009 when possibly a Democrat will be in the White House and might sign the legislation
- Much of the discussion occurs with the knowledge that nothing will actually become law
- Vote trading and posturing occurs

## *What Happened in 2007?*

- Received 55 votes in the Senate but that was not enough to override a threatened filibuster
- Passed the House of Representatives but without enough to override a veto
- Will be discussed again in 2008 and depending on the election 2009

- Political processes are different
  - Differences are primarily in the respective power of the executive and legislative branches and the ways coalitions are formed to pass laws
- All systems have legislative components that assist the legislators and provide financial estimates of the impact of the legislation

# *International Process*

- Change is often more rapid in other countries
- Often change occurs with less information
- However all the systems have ways that require data and analysis (even dictatorships)