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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.
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.
Analytic Question

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
Savings

- 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
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.
Politics

- 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)