

## Medicare Prescription Drug Plans: Democratic Plan vs. Republican Plan

In the 2000 Presidential Campaign, Ralph Nader repeated over and over that there was no difference between the two major American political parties. He repeated this mantra so often that others began to say it. In fact, it has been a long time since the parties have been so far apart. Nothing symbolized this better than the two competing Medicare prescription drug plans. Each party's plan was emblematic of its view of the role of government and the workings of markets.

In essence, the Republican plan, touted by George W. Bush, individually reimbursed seniors on Medicare for part of their prescription medications. This was the plan adopted by Congress after Bush was elected. It was appealing for its simplicity and because it had the appearance of putting money into the pockets of seniors.

The Democratic plan put forward by Vice President Al Gore was greatly different in how it approached the problem of rising prescription medicine prices. Democrats recognized the problem as one of market structure—hundreds of millions of consumers, but only a handful of producers. The inordinate market power these producers enjoyed allowed them to control supply, causing high prices.

The Democratic plan sought to bring the market into balance by creating a Medicare buying pool. In other words, under the plan, Medicare would purchase prescription drugs in large quantities, forcing producers to bring their prices down closer to the cost of production (including research and a reasonable return on stockholders' investments).

The outcome would have lowered prescription drug costs not just for Medicare recipients, but also for the general public, since it would be hard for producers to justify charging a higher price to pharmacies once their inflated prices were exposed. So everyone would have benefited, and health care costs would actually have been reduced. This would have had positive effects on the federal, state, and local budgets, as well as business costs.

The Republican plan, on the other hand, could not have been better designed to spur inflation in the prescription drug market and increase health care costs at all levels of government and in all industries. By putting more money into the market (our tax money) without changing the structure of the market or the demand for the drugs, drug prices for everyone would inevitably rise (classic inflation).

You see, the drug producers have a good handle on their demand curves—how much of their product people demand at a given price; or how much money people will pay at a given level of availability. Their OWN money. Economists have a couple of terms to describe what the consumer feels when they get more money. If the consumer receives extra money over a long period (like a raise or a sustained subsidy) this is called "income effect." If he or she receives a one time windfall or sees an accumulation of assets (such as an inheritance or a one-time subsidy), it's called "wealth effect." Either way, it leads the

consumer to be willing to pay more for goods. In this case, the good in question is prescription drugs.

Drug companies, knowing how much of their own money consumers had already proved they were willing to pay, are free to simply raise the price of the good to absorb the subsidy. And that's precisely what has happened.

What about those of us who aren't Medicare recipients? Well, we pay the inflated prices, too. That's because pharmacies don't engage in price discrimination. After all, how would it look to charge grandma more than someone much younger?

And the simplicity seems to have vanished, as well. The plan that was enacted by the Republican Congress and signed by the Republican administration requires members to enroll in 'Part D' programs, wherein they are forced into a 'private prescription drug card' plan (remember the derision of the 'Clinton health care plan in '93?). This gets pretty confusing when grandma and grandpa start shopping around, and it still leaves the market forces out of whack.

Now for the worst part: In his State of the Union Address in January, 2003, President Bush promised the plan would cost only \$400 Billion over ten years (only?). Last February, it was announced that the plan would actually cost as much as \$1.2 trillion over ten years. Oops. How could there be that large a discrepancy? Well, two reasons. First the Republicans march in lock step wearing rose-colored glasses when selling their economic and political ideology, and this was no exception (is that why they call them *Red* states?). They didn't take into account the inflationary effect of their corporate-oriented policy. Second, it depended on which ten-year period you were looking at. The real trouble doesn't start until later in the program, when all those baby-boomers begin to retire and get the benefit.

So costs go up, not down, at all levels of government. Budgets public and private go bust. More people can't afford healthcare or insurance. And the only winners are the drug companies, who have seen huge profits (which used to be money we spent on other things, like education and transportation).

So the Democratic plan was based on real-world economics. The Republican plan was based on ideology. The Democratic plan would have brought prescription drug prices down for everyone, not just Medicare. The Republican plan raised everyone's prices, including Medicare recipients. The Democratic plan would have created health care cost savings for business and all levels of governments, reducing deficits. The Republican plan has raised business costs making American producers less competitive in the world and raised government costs to the point that nobody knows how we'll pay for the added deficits.

Republicans seek to weaken government and keep it small. They see corporate interests as the strength of America (What's good for General Motors is good for America—the business of America is Business). Democrats believe in limited government, too, but we

believe that it should be big enough to be valuable to the people, and should be the place where we come together to do great things, like guarantee everyone access to good health care.

Do you still think there's no difference between the parties?