

Macro Roundup Article

Headline: [Evaluating Pharmaceutical Policy Options](#)

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Tweet: US efforts to reduce domestic pharmaceutical prices, without corresponding increases in other high-income countries, “could dramatically reduce firms’ investment in highly welfare-improving R&D.”

Summary: As long as the vast majority of the funds for research keep being supplied by firms, an increase in pharmaceutical research likely requires increased private incentives to do that research. Our calculations indicate that currently proposed U.S. policies to reduce pharmaceutical prices, though particularly beneficial for low-income and elderly populations, could dramatically reduce firms’ investment in highly welfare-improving R&D. The U.S. subsidizes the worldwide pharmaceutical market. One reason is U.S. prices are higher than elsewhere. If each drug had a single international price across the highest-income OECD countries, and total pharmaceutical firm profits were held fixed, then U.S. prices would fall by half and every other country’s prices would increase (by 28% to 300%). International prices would maintain firms’ R&D incentives and more equitably share the costs of pharmaceutical research.

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Primary Topic: Innovation/Research

Topics: Academic paper, Innovation/Research, Productivity

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