

Congress of the United States
House of Representatives
Washington, DC 20515-4326

January 9, 2007

**The Democrats Medicare Part D Policy:
Measuring the Human and Capital Cost**

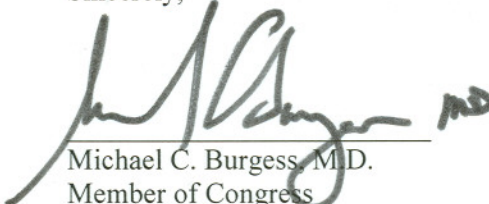
Dear Colleague,

As the experience in Canada and Europe shows, government mandated drug formularies and interference in drug pricing leads to substantially less drug innovation and rationing of access to the new medicines that do come to market. Thus, the Democrats' political proposal has as its unintended consequence an increase in future human suffering. Estimates by Benjamin Zycher of the Manhattan Institute for Policy Research would be that almost 200 new drugs would go undiscovered over the next two decades as an indirect result of federal price negotiations.

Based on a review of existing government purchasing programs, new research from the Manhattan Institute provides specific estimates of the effects of formulary limitations and limiting pharmacy access—which would occur under the Democratic approach to Medicare Part D even as they deny those realities. The cumulative decline in drug R&D for 2007-2025 would be about \$196 billion in year 2005 dollars, or \$10.3 billion per year. Because R&D costs for new medicines are about \$1 billion, the loss would be about 196 new drugs. Other published research reports findings that each pharmaceutical R&D investment of roughly \$2,000 yields an expected gain of one life-year. Accordingly, an annual R&D decline of \$10 billion would result in an expected loss of 5 million life-years each year. If we assume, again conservatively, the value of a life-year at \$100,000, the economic cost of this effect would be about \$500 billion per year, far in excess of total U.S. spending on pharmaceuticals.

The human and fiscal costs of the Democrats' Medicare proposal will have huge costs. And yet, Democratic leadership will press forward this week for a vote on eliminating Medicare's non-interference clause in clear disregard of these real consequences to score political points. Before holding a vote on something as important as changing a successful program that millions of seniors rely on, the Democratic leadership should hold hearings or Committee mark-ups to make sure seniors and a vital American industry are not irreparably harmed.

Sincerely,



Michael C. Burgess, M.D.
Member of Congress