David and I negate Resolved: The United States federal government should impose price controls on the pharmaceutical industry.

Our Sole Contention is Pharmaceutical Fallacies

The majority of the drastic price increases today are typically done by extremely wealthy multinational corporations, known as Big Pharma. Unfortunately, price controls will not affect Big Pharma because of the negotiation process required for price controls. Each individual drug that is produced in a price controlled market has to have its price negotiated by both the pharmaceutical company and the government, as each drug has a different cost to produce and value to society. Unfortunately, Bok of University of Chicago states in 2018 that when the US government has tried price negotiating in the past, for example with Medicaid in the 1990s and with Medicare Part D in recent years, and negotiations have always failed. This is because Alex Keown of BioSpace writes in 2018 that Big Pharma practically bribes the FDA, who would be in charge of setting price controls. More specifically, Mindock of the Independent in 2018 reports that the vast majority of board members on the FDA have accepted bribes from Big Pharma. 40 advisors received more than $10,000 and 17 advisors received $26 million, all of which the FDA conveniently decided not to report. It is for this reason that Bok of University of Chicago concludes that “it is a very likely outcome that federal negotiations could increase drug prices rather than reduce them.” Overall, the linkages formed between the federal government and Big pharma will leave Big Pharma practically unfazed by price controls.

HOWEVER, price controls are still incredibly dangerous for two reasons.

First, is hurting small pharmaceutical companies. Unlike Big Pharma, these small businesses are forced to suffer the effects of price controls, as they don't have the resources to bribe the FDA. Because of this, small business revenues will decrease dramatically. In fact, Sood of the RAND Corporations finds that price controls reduce revenues by an astounding 24%. This massive drop in revenue hurts small businesses by forcing them to decrease research and development, otherwise known as R&D. Spence of Ernst Company in 2017 finds that small businesses spend nearly half of their budget on R&D -- so when profits decrease, money spent on new drug research must also decrease. Unfortunately, this causes the flow of investment to dwindle. Fiorenzo of Harvard writes that the risks that small companies take is predicated on the potential for high profits. Unfortunately, investors see it this way as well, so when revenue decreases, so do the investment funds, leaving companies with no cash to stay afloat. This is why Max Nisen of Quartz writes in 2015 that price controls would burst the bubble of investment that companies receive.

With this in mind, Sam Batkins of the Action Forum finds that a 10% increase in regulatory costs caused by adhering to price controls leads to 400 small businesses closing down. Historically, this is true as Emma Dean of Emory writes that the introduction of price controls in India led to the market share of small pharmaceutical companies to decrease by 15%. Because price controls kill small businesses who invent new drugs, Pietro Paganini of the Washington Examiner reports that if nations who currently have price controls were rid of them, they would produce 8 to 13 more new drugs per year in each country. Lichtenberg of Columbia quantifies that the average new drug saves 11,200 life-years annually.

Second, Implementing price controls will delay the speed in which life saving medicine can reach the market. Mark Schankerman of the London School of Economics studies 70 countries with and without price controls, and he finds that regulations strongly delays the launch of new drugs. In fact, he quantifies that price regulations increase the launch lag time by 25%. Because each drugs costs a different amount to produce and are valued at different prices, price controls require a negotiation process between the federal government and the manufacturer. As a result, Joan Varol of Vox Magazine writes that this drawn out negotiation process causes strong delays or even non-launches of new drugs. Unfortunately, David Stewart of Ottawa University in 2015 finds that 250,000 life years are lost per year due to delays.