

COMPETITIVE PROBLEMS IN THE DRUG INDUSTRY 12041

Discussion

California's Medicaid Reimbursable Cost List Price Program (RCLP), which placed direct price controls on the drug costs of prescriptions paid for from Medicaid funds, is very similar to the HEW's recent proposed Maximum Allowable Cost (MAC) proposal. As such the California experience serves as a means of testing the effectiveness of such programs. The dramatic size of the California program and the accumulated expertise of its administrators add validity to this test. Overall a conclusion can be drawn that, based on the California experience, a MAC-type program has not resulted in the most efficient purchase (at least cost) of pharmaceutical products under public assistance medical care programs.

Three clearly discernible characteristics of the California experience point to this conclusion. First, under RCLP there were some minor short-term savings in direct drug costs, but the anticipated "savings" were significantly (threefold) less than originally forecasted. (In addition, if one takes into account the 1.2% decline in the average prescription size that occurred between the two time periods of this study, the total gross savings on prescription drug expenditures amounts to 1.3% (or less) instead of the 2.5% shown above.)

Second, although direct measures of administrative costs are not available, there are strong indications that these costs are not insignificant. When these are coupled with the overestimate of