

COMPETITIVE PROBLEMS IN THE DRUG INDUSTRY 12029

LOS ANGELES, CALIFORNIA 90033

February 10, 1975

Miss Jennie C. Peterson
Hearing Clerk
Food and Drug Administration (HFC-20)
Room 4-65
5600 Fishers Lane
Rockville, Maryland
20852

Dear Miss Peterson:

In response to the Department of Health, Education and Welfare's recently proposed Maximum Allowable Cost (MAC) program regulations, the following is respectfully submitted.

Through my recent personal experience as Secretary of Health and Welfare for the State of California, where for four years I exercised jurisdiction over the nation's largest state public medical care assistance program, I have developed a study that yields several conclusions related to the DHEW's proposed MAC program. This report is attached for your consideration. The basic conclusions reached by this study are as follows:

1. California experience with a program very similar to MAC shows that the gross savings from such a direct cost control program are minimal and that the potential gross savings estimated prior to program operation were exaggerated over threefold.
2. There is a tendency for the administrative costs to be underestimated and they alone may outweigh the minimal gross drug savings.
3. California's MAC-like drug cost control program may be raising the costs of other components of the health care delivery system.
4. Based on my observations, direct control programs (such as MAC) cause a significant amount of disaffection among professional health care providers. This has had a detrimental effect on the quality of health care services subsequently delivered.