

Economist Speaks Out On Dangers of “Too Much” PBM Transparency

Pharmacy benefit managers (PBMs) work with health plans, employers, unions and government programs to make prescription medicines safer and more affordable for nearly 200 million Americans nationwide.

Critics of PBMs contend that there is a need for greater levels of “transparency” about the contracts PBMs have with drug companies and retail pharmacies. Many economists disagree. They say that disclosure of the terms of confidential and bargained-for business contracts would inhibit price competition and trample intellectual property rights.

Noted economist John E. Calfee, Ph.D. of the American Enterprise Institute, spoke on the issue of PBM transparency at a joint Federal Trade Commission/Department of Justice Hearing on Pharmacy Benefit Managers in June 2003. Below are excerpts of his remarks:

Too Much Transparency Would “Diminish Competition”

“One has to beware of the dangers of inducing or forcing too much transparency in this market -- and I think that inducing or forcing transparency could do a considerable amount of mischief -- one would lead to diminished price competition. It's pretty well known that highly competitive markets are markets in which a lot of the price cutting is done below the board in ways that people don't see because that way one particular agent can get away with a price cut and gain market share and get some profits out of that before the competition realize that their prices have been undercut. And if you remove the secrecy, if you make prices more open, you can greatly reduce the incentives to cut prices in the first place.”

“Too much transparency would also tend to diminish competition in terms of information collection, market research, and the other activities which can be quite important for PBMs, as it is for all intermediaries. And the reasons are pretty clear, which is why should you go to the trouble to collect a great deal of very useful information if you're going to have to turn all that information over to your competitors?”

“Intellectual Property Needs To Be Respected”

“A downside from too much transparency could also arrive in connection with formulary development, disease management, and related activities that, again, are highly dependent upon information which in many cases is proprietary. And again, too much transparency would reduce the incentives to engage in these activities.”

“There's obviously a considerable amount of intellectual property associated with the collection and especially the use of information in this particular market. Intellectual property is something that promotes investment, of course, and I think that intellectual property needs to be respected...”

The Market Works “Reasonably Well”

“In some cases PBMs have quite public formularies; in other cases, their formularies are not nearly as public; and I think that that's something the market can sort out and can work reasonably well.”

Source: Federal Trade Commission, FTC-DOJ Hearings on Health Care Competition and Competitive Law and Policy, Panel Discussion: Pharmacy Benefit Managers, June 26, 2003.