From: Satya Marar, Research Fellow (Innovation, Competition & Governance)
Mercatus Center at George Mason University
3434 Washington Blvd, 4th Floor, Arlington, VA 22201.

August 17, 2026

To: Senate Committee on Finance
Attn: Minority Staff
Dirksen Senate Office Building, Washington, DC 20510.

Via Email: drugs@finance.senate.gov

RE: Response to Request for Information (RFI): Commonsense Policy Options to Lower Drug Prices for Patients

Dear Ranking Member Wyden and Members of the Committee,

Thank you for the opportunity to respond to the Committee's RFI. As a research fellow at the Mercatus Center at George Mason University specializing in economic competition, innovation, and governance in healthcare and other critical sectors, my research evaluates how regulations and procurement models impact consumer welfare, competition, and pharmaceutical innovation.

Established in 1980, the Mercatus Center at George Mason University serves as a leading university-based hub for market-oriented research, dedicated to connecting academic insights with real-world policy challenges. Through its graduate programs, research initiatives, and economic analysis, Mercatus works to deepen understanding of how markets function and how they can improve lives. Its mission is to advance knowledge about the institutions that support prosperity and to identify lasting solutions that remove obstacles to individual freedom, peace, and economic well-being. This comment reflects that mission and is not submitted on behalf of any particular interest group. Rather, it is intended to inform and support the decision-making process of the Senate Committee on Finance in the interest of promoting competition and innovation.

While lowering out-of-pocket costs for American patients is a vital objective, policymakers must avoid policies that would lead to higher costs and less access to new cures in the long run by reducing incentives to research, develop and deploy new medicines. Below are responses to key proposals highlighted in the RFI based on my research:

1. Reassessing Administered Pricing and Early-Lifecycle Negotiations (Section I)

Expanding government-administered price-setting under the Inflation Reduction Act (IRA)—or accelerating negotiation timelines—threatens the high-risk, capital-intensive lifecycle of drug discovery. Bringing a new therapeutic to market requires billions in upfront capital, and the CBO estimates that drugmakers must achieve a 62.2% margin on successful drugs merely to yield an aggregate 4.8% return on assets due to high research and trial costs and high failure rates.[1]

- **Lifecycle Distortions:** Following the IRA's enactment, post-approval oncology trials for small-molecule drugs fell by 45.3% (compared to 32.5% for biologics), directly aligning with the IRA's truncated 7-year price-setting timeline for small molecules relative to 11 years for biologics.[2] Long-term projections estimate a 12% reduction in small-molecule R&D, forfeiting nearly 188 treatments and 79 new drugs over 20 years.[3] Accelerating negotiations will exacerbate these negative impacts.

- **Monopsony and Anticompetitive Tying:** Conditioning participation in Medicare and Medicaid (comprising ~40% of the

[1] Satya Marar, "Right Diagnosis, Wrong Cure: Trump's MFN Price Controls Aren't the Answer to America's High Patented Drug Pricing, but Trade Deals May Be," *Regulation* (Summer 2026): 25, https://www.cato.org/regulation/summer-2026/right-diagnosis-wrong-cure.
[2] Hanke Zheng, Julie A. Patterson & Jonathan D. Campbell, *Early Impact of the Inflation Reduction Act on Small Molecule vs. Biologic Post-Approval Oncology Trials*, 3 Health Affs. Scholar qxaf152 (Aug. 28, 2025), https://doi.org/10.1093/haschl/qxaf152 cited in Kristian Stout, "Don't Import the Distortion: Why MFN Drug Pricing Would Weaken U.S. Innovation," International Center for Law & Economics, July 1, 2026, https://laweconcenter.org/resources/dont-import-the-distortion-why-mfn-drug-pricing-would-weaken-u-s-innovation/.
[3] Thomas J. Philipson, Yier Ling & Ruiquan Chang, *The Impact of Price Setting at 9 Years on Small Molecule Innovation Under the Inflation Reduction Act* (Univ. of Chi. Initiative on Enabling Choice & Competition in Health Care Policy Brief, Oct. 2023), https://ecchc.economics.uchicago.edu/2023/10/09/policy-brief-the-potentially-larger-than-predicted-impact-of-the-ira-on-small-molecule-rd-and-patient-health-2/ cited in cited in Kristian Stout, "Don't Import the Distortion: Why MFN Drug Pricing Would Weaken U.S. Innovation."

U.S. drug market) on mandatory price concessions for patented drugs would greatly depress expected revenues, diverting investment from new drug R&D, including for drugs that address critical illnesses such as cardiovascular ailments, chronic conditions and cancers. As new drugs help keep patients out of the hospital, an undersupply of pharmaceutical research and innovation will likely increase costs to American patients and taxpayers in the long run. Hospitalizations currently account for roughly 30% of federal healthcare spending, while drug prices account for just under 10%.[4] Although IRA price setting and negotiations are exempt from antitrust scrutiny since they are undertaken by a government agency, such a tying arrangement would likely be an illegal anticompetitive practice under the Sherman Act if it were undertaken by a private party.[5]

2. International Reference Pricing (IRP): The Wrong Diagnosis (Section I)

Incorporating foreign reference pricing into Medicare Maximum Fair Price (MFP) ceilings attempts to import the monopsonistic price suppression and manipulated Health Technology Assessments (HTAs) of foreign single-payer systems.

- **The Reality of Foreign "Free Riding":** The U.S. generates ~75% of global pharmaceutical profits despite accounting for ~26% of global GDP, effectively underwriting global R&D.[6] Foreign governments manipulate cost-effectiveness thresholds to underpay for innovation. For instance, the UK uses a static $40,000 valuation for a Quality Adjusted Life Year [QALY], which is a twelfth of the US valuation of a QALY, in determining how much its National Health Service (NHS) pays for a drug.[7] IRP would simply import these manipulated and deflated assessments, which are often not even periodically adjusted for inflation.

- **Trade Leverage Over Price Caps:** Rather than importing foreign price controls—which reduces global R&D revenue and delays patient access—the federal government should address foreign price caps as non-tariff trade barriers and anti-competitive market distortions through bilateral trade negotiations. For instance, the recent U.S.–UK trade agreement on drug prices resulted in the UK government committing to 25% higher drug prices.[8]

- **Important Context:** Although Americans pay significantly more for patented prescription drugs than citizens of comparable foreign countries, U.S. payers pay roughly 18% *less* on average than comparable foreign peers for *all* prescription drugs due to significantly faster and stronger generic drug entry and competition in the US market.[9] Critically, this generic entry and competition is driven by a combination of greater revenue potential in the US market, policy settings under the US Hatch-Wexman Act that do not exist overseas, and the lack of drug price controls or government buyer monopsony in U.S. patented prescription drug pricing, which also makes generic competition more lucrative upon the expiry of a drug's patents.[10] Furthermore, and as noted above, pharmaceutical revenues drive R&D, leading to medicines that may reduce healthcare costs for American patients and taxpayers.

3. Pro-Competitive, Pro-Market Reforms to Lower Patient Costs (Sections II & III)

To lower patient costs without chilling innovation, the Committee should focus on pro-competitive reforms:

- **Fostering and Expediting Market Entry & Competition:** Unbranded generic prices drop by ~90% with robust competitor entry. Congress should reduce artificial barriers to biosimilar and generic uptake. For patented drugs, Congress should pursue reforms for mutual recognition of regulatory approvals and processes such as facility inspections undertaken by public health agencies in comparable developed economies. This would significantly lower overhead costs and costs of US market entry for new drugs. Over 20% of all new active substances approved by the US FDA in 2023 were approved

[4] Marar, "Right Diagnosis, Wrong Cure," https://www.cato.org/regulation/summer-2026/right-diagnosis-wrong-cure.
[5] Satya Marar, "The Federal Government's Drug Price Negotiation Program Would Likely Violate Its Own Antitrust Laws," *IPWatchdog*, January 26, 2026, https://ipwatchdog.com/2026/01/26/federal-governments-drug-price-negotiation-program-likely-violate-own-antitrust-laws/.
[6] Sujai Shivakumar and Anne Pritchett, "Securing the Future of the U.S. Biopharmaceutical Industry: The Most-Favored-Nation Paradox," Center for Strategic and International Studies (CSIS), January 13, 2026, https://www.csis.org/analysis/securing-future-us-biopharmaceutical-industry-most-favored-nation-paradox.
[7] Marar, "Right Diagnosis, Wrong Cure," https://www.cato.org/regulation/summer-2026/right-diagnosis-wrong-cure.
[8] Satya Marar, "Great News: Britain to Pay More for U.S. Drugs," *DC Journal*, December 10, 2025, https://dcjournal.com/great-news-britain-to-pay-more-for-u-s-drugs/.
[9] Philipson, Tomas J., Deyu Zhang, & Qi Zhao, 2025, "International Comparison of Prices for Drug Prescriptions," University of Chicago, June 7, https://ecchc.economics.uchicago.edu/project/international-comparison-for-drug-prescription-prices/.
[10] Satya Marar and Tomas Philipson, "Right Diagnosis, Wrong Cure: Examining the True Cost of Drug Price Controls," event video and transcript, Mercatus Center at George Mason University, August 2026, https://www.mercatus.org/economic-insights/event-videos/right-diagnosis-wrong-cure-examining-true-cost-drug-price-controls.

first or within a month of FDA approval by counterpart agencies in Australia, Canada, Japan, Switzerland or the EU.[11]

- **Expanding Consumer-Driven Competition:** Directing the FDA to expand Over-the-Counter (OTC) availability for suitable prescription therapies and broadening Health Savings Accounts (HSAs) injects direct consumer price shopping, applying genuine downward pressure on prices by cutting out insurance middlemen as price competition reduces when more purchases are made through third-party payors.[12]

- **Increasing Foreign Contributions to Global Pharma R&D to Offset US Contributions**: International agreements with foreign governments to reduce drug price controls, agreements with these governments to pay more than they currently do for patented drugs, can provide an incentive for drugmakers to enter into agreements with the US government to lower their domestic prices without compromising existing innovation incentives. Under the status quo, drugmakers accept lower foreign prices as a condition for accessing overseas markets due to the monopsony leverage of foreign public insurers. However, such agreements would come with the tradeoff of less revenue for new drug research than would otherwise exist with higher foreign contributions, which can lead to worse patient outcomes and access to care as well as more hospitalizations.

I welcome the opportunity to discuss these findings and provide further research to the Committee.

Sincerely,

Satya Marar
Research Fellow (Competition, Innovation & Governance), Mercatus Center at George Mason University

[11] Centre for Innovation in Regulatory Science, *R&D Briefing 93: New Drug Approvals in Six Major Authorities 2014–2023: Changing Regulatory Landscape and Facilitated Regulatory Pathways* (London: Centre for Innovation in Regulatory Science [CIRS], 2024), https://cirsci.org/publications/cirs-rd-briefing-93-new-drug-approvals-by-six-major-authorities-2014-2023/.
[12] Satya Marar, "The Many Tradeoffs of Trump's 'Fat Shot' Deal," Truth on the Market (blog), November 17, 2025, https://truthonthemarket.com/2025/11/17/the-many-tradeoffs-of-trumps-fat-shot-deal/.