REVIEW & OUTLOOK

Hillary's Vaccine Shortage

Everyone knows America's vaccine industry is in serious trouble, with an ever dwindling number of producers and recent severe vaccine shortages. What everyone also should know is that the National Academy of Science's Institute of Medicine has now pinned much of the blame on Hillary Rodham Clinton.

A new study blames monopoly government purchase.

Well, not in so many words. The panel of doctors and economists issuing a report on vaccines last week was too polite to mention the former First Lady by name. But they identify as a fundamental cause of the problem the fact that the government purchases 55% of the childhood vaccine market at forced discount prices. The result has been "declining financial incentives to de-ve'-- and produce vaccines."

__e root of this government role goes back to August 1993, when Congress passed Mrs. Clinton's Vaccines for Children program. A dream of Hillary's friends at the Children's Defense Fund, her vaccines plan was to use federal power to ensure universal immunization. So the government agreed to purchase a third of the national vaccine supply (the Clintons had pushed for 100%) at a forced discount of half price, then distribute it to doctors to deliver to the poor and the un- and under-insured.

The result is a cautionary tale for anyone who favors national health care. Already very high in 1993, childhood vaccination rates barely budged. A General Accounting Office report at the time noted that "vaccines are already free" for the truly needy through programs like Medicaid. Meanwhile, however, the Hillary project dealt the vaccine industry another financial body blow.

Thirty years ago, the Institute report notes, 25 companies produced vaccines for the U.S. market. Today only five remain, and a number of critical shots have only one producer. Recent years have brought shortages of numerous vaccines, including those for whooping cough, diphtheria and chicken pox.

The Institute of Medicine panel seems to assume—probably correctly—that it's not politically feasible simply to kill something called Vaccines for Children. But it does suggest that removing the government as a direct purc' 'r would allow for adequate reimburse-__ and help the industry to get back on its feet. So it recommends replacing existing vaccination programs with a subsidized insurance mandate for children and seniors, and with vouchers for those who lack coverage.

In the short run, this might marginally improve on the existing system. But insurers rightly worry that future budget pressures would cause the subsidy to dry up, leaving them with yet another costly coverage mandate. An even greater risk is that it would put the government in position to determine which vaccines to subsidize, and to determine the subsidy level based on nebulous estimates of "the societal value of the vaccine." This seems like an indirect price control, and we can't think of any other industry in which a government policy of picking winners has been conducive to innovation.

The better answer is a return to a freer market. Private companies are willing to innovate if they can get an adequate return. Vaccines are a predictable cost, not a variable insurable risk, and so are affordable for even the poorest Americans. Jack Calfee of the American Enterprise Institute estimates that vaccines account for less than 2% of the pharmaceutical market or less than two-tenths of one percent of total U.S. health costs. The \$400-\$600 cost of the recommended round of childhood vaccines is spread out over 16 years, and the truly needy qualify for Medicaid or the federally funded State Children's Health Insurance Program.

Apart from price controls, the other great threat to vaccine makers has been tort lawyers. Congress took a significant step to solve this problem in 1986, creating the Vaccine Injury Compensation Program, and requiring the injured parties to seek redress there before they can sue in regular courts. But plaintiffs' lawyers have been crafty in finding ways around the VICP, most notoriously by claiming damages due to the discontinued but harmless vaccine additive thimerosal. There's still work to be done here.

The Institute of Medicine panel deserves credit for highlighting the threat to vaccine makers from government price controls. Mrs. Clinton is a powerful Senator now with Presidential ambitions. It took some guts for the Institute panel to say in effect that one of her pet projects is a bust. As Congress considers Medicare legislation that could do similar harm to prescription drug makers, the vaccine tale is a timely alarm.