Opinion

Editorial Board – The Washington Post

How corporate welfare for hospitals is raising health care costs

A drug discount program has fueled consolidation and incentivized prescribing more expensive medications.

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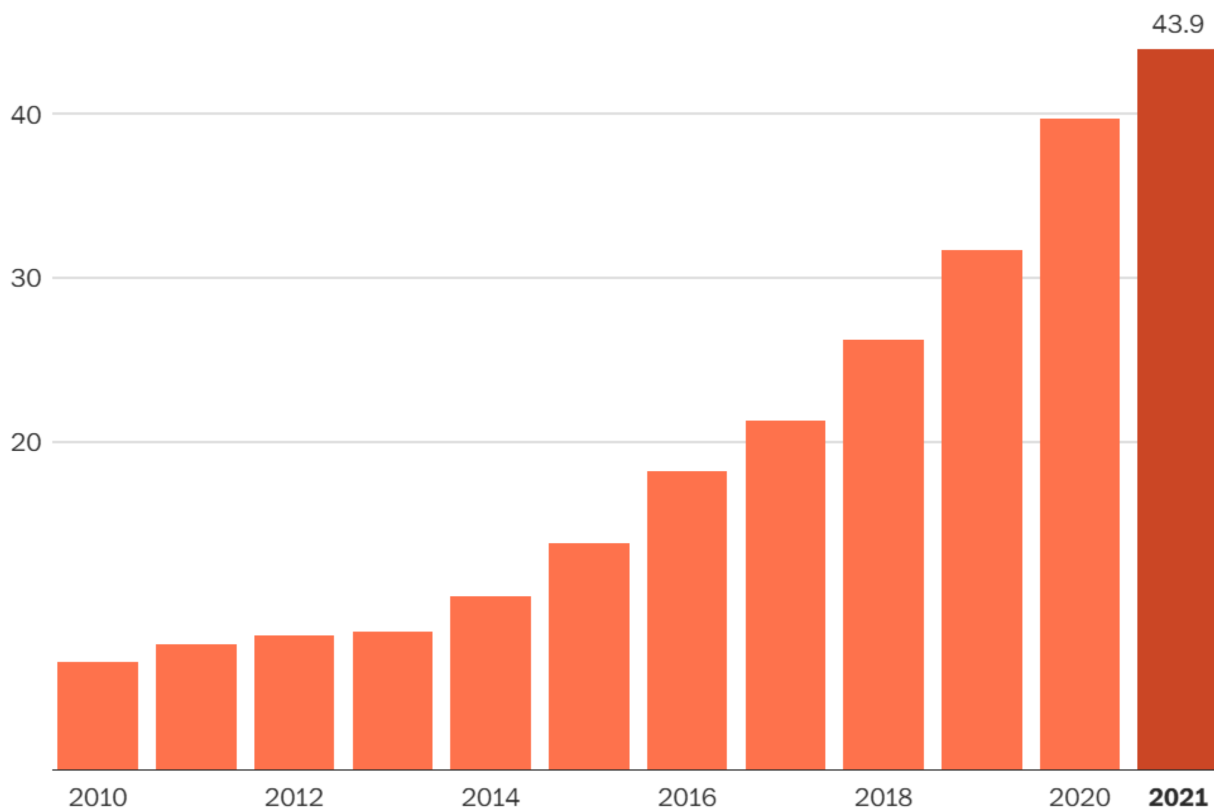
Hospitals are not as unpopular as other health care sectors, such as drug manufacturers and insurance companies. But like other businesses, they are prone to rent-seeking and fiercely defensive of special breaks.

Case in point: The 340B drug discount program.

The federal program was created in 1992 to help hospitals and clinics in poor communities. In recent weeks, it has become the target of new lawsuits over complaints that wealthy health systems are abusing the benefits and driving up costs for everyone else.

The program requires pharmaceutical companies to sell drugs at a discounted rate — usually 25 to 50 percent off the wholesale price — to hospitals or clinics that primarily serve low-income or rural patients. Health systems love this because insurance companies and government programs such as Medicare still reimburse them for those drugs at standard, non-discounted rates. Providers then get to pocket the difference. Over time, large health institutions have come to dominate the program. Costs skyrocketed after the Affordable Care Act dramatically expanded eligibility. In 2010, about $6.6 billion in drugs were purchased through the program. By 2023, that number multiplied tenfold.

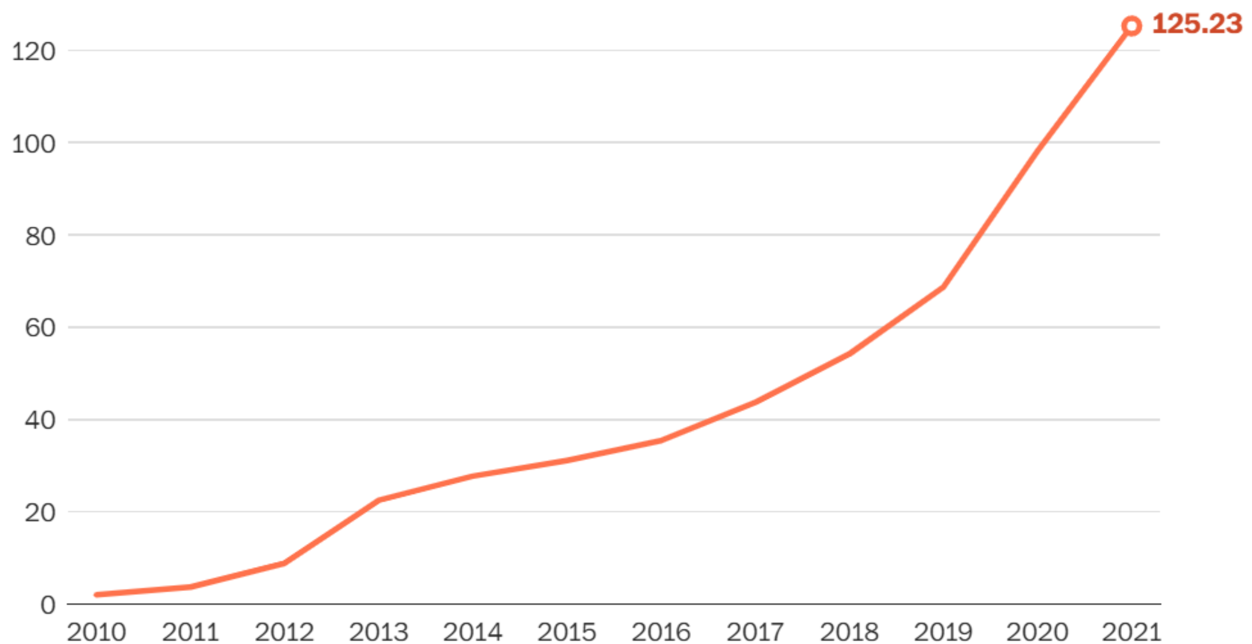


The system creates nasty distortionary effects. For example, participating providers have an incentive to use more expensive, brand-name products, since doing so increases their profit margin from reimbursements. That explains why branded drugs accounted for almost 90 percent of 340B sales in 2023, compared to about 78 percent of sales outside the program.

This drives up overall costs, including for government health programs, which must pony up more for 340B patients, as the Congressional Budget Office has documented.

Meanwhile, the program has fueled consolidation within the health care industry, as hospital systems seek to gobble up as many 340B-eligible patients as possible. Since Obamacare went into effect, big businesses have furiously acquired independent physician practices that administer expensive drugs, such as cancer treatments and other costly infusions. That reduces competition and, again, drives up costs.

Hospitals have also dramatically expanded their use of off-site “contract” pharmacies to dispense the discounted drugs. Originally, each provider could only do so on-site or contract with one outside pharmacy. That changed under the ACA, allowing networks to work with dozens of them, greatly expanding the use of the program.



Instead of serving as a safety net for hospitals in vulnerable communities, the program has become a profit-making venture for big businesses. A Pioneer Institute analysis found that 340B hospitals actually provide *less* charity care on average than those not participating in the program.

Unsurprisingly, the health systems that have become addicted to these taxpayer-subsidized profit streams warn that paring back 340B would prove disastrous for hospitals. They spend heavily to protect their corporate welfare.

Once a business gets accustomed to handouts, it becomes extremely difficult to take them away. But it’s a fight worth having.