

BRIEFLY NOTED

How Are Generics Affecting Drug Prices?

◆ BY IKE BRANNON AND DEVORAH GOLDMAN

Americans are using more—and spending more on—medicine. In 2018, Americans filled the equivalent of 5.8 billion 30-day prescriptions, an increase of 2.7% from 2017. In particular, the use of specialty medicines has grown at twice the rate of other drugs, and they are becoming easier to access: over half of specialty drugs used are now dispensed through retail channels and need not be administered in a hospital, clinic, or doctor's office.

Millions of patients are availing themselves of medicines such as innovative migraine treatments, the recently released shingles vaccine, and breakthrough cancer therapies. The use of medicines for autoimmune diseases increased by 6.3% in 2018 and the number of patients treated for ulcerative colitis, psoriasis, and related conditions increased by around 12% largely because of newly available treatments.

While the growth in new medicines and the wider availability of an array of existing drugs are positive trends, this has not come cheaply. Total net spending on medicine grew by \$14.9 billion in 2018, and net medicine spending totaled over \$1,000 per person. Total out-of-pocket patient costs alone rose to an estimated \$61 billion, up from \$56 billion in 2014.

Unsurprisingly, consumers and insurers are concerned about the cost of medicines—whether traditional, specialty, brand-name, or generic—and this has resulted in a fair amount of finger-pointing.

One way that patients and providers traditionally manage drug prices is by prescribing generic drugs whenever possible. Generics are lower-cost versions of brand-name drugs that compete with both the original drugs and other generics on the market. The competition they engender usually leads to significantly lower costs.

Generally, when a drug goes off patent

and generic drugs hit the market, prices steadily fall as more generic makers enter and pursue market share. Recently, however, there have been a few instances in which the off-patent brand-name drug has only one generic competitor, resulting in notably high prices.

These price increases have caught the attention of lawmakers and other officials around the country, spurring a fair amount of litigation and legislation. For example, in May 2019, Connecticut Attorney General William Tong led 44 states in a lawsuit against 20 of the nation's largest generic drug companies. The coalition alleges that the manufacturers have engaged in "a broad conspiracy to artificially inflate and manipulate prices, reduce competition, and unreasonably restrain trade for more than 100 different generic drugs." The lawsuit also names 15 current or former senior executives responsible for sales and operations, claiming they were at the heart of the conspiracy that Tong described as "an attack on the American people." The Department of Justice has also launched an investigation into the matter.

In an attempt to stop future post-patent price spikes, a number of states have passed price-transparency laws that require drug makers to explain the reasons behind dramatic price increases. In one example, Maryland passed a drug "price gouging" law (which has since been deemed unconstitutional) that particularly targeted generic drugs. It subjected any generic or off-patent medicine that cost more than \$80 a month or per course of treatment to state-government review of the price. The

government was also charged with reviewing any generic drug whose price increased by 50% in 12 months.

While such events understandably generate headlines and outrage, it is important to gain perspective on the broader trends affecting drug pricing. While a few generic drugs have risen in price or have been expensive from the start, generic drugs overall continue to exert downward pressure on drug prices.

The evolved market / There has long been a push to increase access to generic drugs. For instance, the Drug Price Competition and Patent Term Restoration Act of 1984, commonly known as the Hatch-Waxman Act, established an abbreviated pathway to introduce generic drugs into the market. While original brand-name drugs must undergo lengthy clinical trials, the Hatch-Waxman Act permitted swifter approval of generic drugs after a period of brand-name exclusivity that typically lasts at least five years.

Since the passage of this legislation, the Food and Drug Administration has approved over 16,000 generic applications and the use of generics has risen dramatically. In 1984, less than 20% of prescriptions were for generic drugs; today they account for approximately 90% of all prescriptions. Third-party payers and pharmacy benefit managers help drive generic sales by generously reimbursing pharmacies for dispensing generics rather than brand-name drugs, and by rewarding high rates of generic substitution with incentives such as bonuses. Despite the fact that generics comprise a huge majority of the prescriptions dispensed in the United States, they account for somewhere between a sixth and a quarter of drug spending.

However, generics' share of total drug spending misrepresents their effect on overall drug costs. When the first generic version of a given brand-name drug enters the market, it is sold at a lower price than the original brand-name drug, which must reduce its price to maintain market share. Prices generally decline further as additional generic competitors are introduced.

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An analysis of retail prescription drug sales between 1999 and 2004 found that, while the first generic competitor tends to provide limited savings, the second generic competitor sells for about half the price of the brand-name drug. By the sixth competitor, generics tend to sell for a quarter of the original drug's price. A separate study by the IMS Institute for Healthcare Informatics estimated that oral generics generally cost 80% less than the brand-name drugs they replace within five years.

had not kept pace with submissions and a growing backlog awaited agency review. That backlog approached 3,000 by October 2012.

In response to those concerns, the generic industry and the FDA collaborated to create a user fee program that would alleviate the backlog, improve application review times, and increase inspections of foreign manufacturing facilities. In 2012, Congress enacted the bulk of this agenda when it passed the Generic

for "gaming the system" by aggressively fighting for patent extensions, seeking new patented uses for products already on the market, and preventing generic drug makers from obtaining samples. The Congressional Budget Office estimated that merely ensuring that generic brands can easily gain access to name-brand drug samples would save the federal government \$3.8 billion over 10 years, partly by lowering Medicare and Medicaid spending on prescription drugs, with consumers saving even more than that.

In short, much of the policy focus on generic drugs has concerned obstacles to getting them on the market in the first place.

Seeing the problems clearly / Despite the fact that the drug market is dominated by generic medicines and that they clearly lower overall drug spending, they have not escaped criticism. The now-voided Maryland law and the multistate lawsuit are just two examples of government allegations against generic drug makers.

The focus on potential price-fixing and market collaboration in the drug market tends to obscure the fact that generic drug prices, when considered en masse, are falling across the board—to the extent that some experts worry they may be *too low*. For instance, a collaborative report for the *New York Times* and the nonprofit journalism group ProPublica by Charles Ornstein and Katie Thomas noted that "amid the public fury over the escalating costs of brand-name medications, the prices of generic drugs have been falling, raising fears about the profitability of major generic manufacturers."

As the FDA has cleared out a backlog of generic-drug approvals, new competitors have entered the market and are deflating drug costs. According to an analysis by *GoodRX*, a website that tracks prices consumers pay at pharmacies, retail generic prices dropped 2.4% in 2017. That figure conceals significant variations: for instance, the retail price for clopidogrel, the generic for antiplatelet medication Plavix, dropped from \$6.03 to \$3.77 per



The lower generic prices lead most patients to switch to generic versions of the medicines they need when such drugs become available. The Association for Accessible Medicines, the trade association for generic manufacturers, has estimated that generics fueled \$1.7 trillion in savings over the past decade.

However, the pathways to creating generic drugs can be complicated, and at times the introduction of a generic drug can have a limited effect on drug costs in a market. In recent years there have been several instances of delayed launches of generic drugs and potentially inadequate supplies of generic drugs. What's more, for a period of time in the early 2000s the FDA's review of generic drug applications

Drug User Fee Amendments, a five-year program that enabled the FDA to assess industry user fees, giving it more resources to help bring greater order and speed to the review of generic applications. The legislation also took steps to encourage greater competition in the drug market. By the end of the five years, the FDA had met its goal of reviewing at least 90% of backlogged applications and 90% of new generic applications. In 2017, President Trump reauthorized the law in a slightly different form.

The Trump administration took other steps to expand the generic drug market and reduce drug prices. In May 2018, FDA Commissioner Scott Gottlieb took aim at brand-name drug manufacturers

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pill, a decline of 37%.

The Government Accountability Office found that generic prices have been declining since at least 2010, noting that they have fallen “even in the face of high-profile exceptions: dozens of old generic drugs have risen in price in recent years, for reasons that include supply disruptions and competitors’ leaving the market.”

The U.S. market for generics is also faring far better than many European markets, according to a 2017 study published in the *Milbank Quarterly*. In Switzerland, for example, only 17% of prescriptions are filled with generics. The market share for generics is also low in Italy (19%), Greece (20%), France (30%), Belgium (32%), Portugal (39%), Sweden (44%), and Spain (47%). And generic prices in the United States overall have fallen consistently: the *Milbank Quarterly* article noted with concern that, between 2012 and 2013, generic prices for 280 widely used medicines had fallen *only* by 4%, in contrast to the steeper declines of previous years. It did not warn of market-wide *increases* in prices.

Some generics manufacturers have been criticized not for sharply increasing their prices, but for making them high in the first place. While many consumers were understandably furious that high-priced brand-name drugs often set the stage for the high prices of generics, competition ultimately serves to drive prices down as more generic manufacturers enter the market.

A better way to conceive of generic drug prices would be to consider their overall distribution and how that distribution has changed. The mean price people pay for generics continues to fall each year, even with a few drugs increasing prices at the upper end of the distribution. In effect, the distribution of generic drug prices may have increased in variance, or there may be more drugs with prices in the tail of the distribution, but the mean price has continued to decline.

Conclusion / Americans are paying for a lot of medicine, and the costs can be daunting. There are certainly steps the govern-

ment can take that would improve the market for generics. What’s more, manufacturers of a few brand-name drugs such as parasitic disease treatment Daraprim have somehow dodged generic competition and continue to enjoy monopolies and charge high prices for drugs that are produced cheaply.

However, while the narrative that a few generic drug producers have conspired in a bid to boost drug prices has received outside media attention, there are no data showing that generics have served to drive up prices market-wide. In considering widespread policy reforms that would affect generics,

it is important to recall that they remain one of the few segments of the health-care landscape keeping prices down. R

READINGS

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Will America Be the Next Ghana?

BY PIERRE LEMIEUX

At the Atlas Network’s most recent Freedom Forum, half a dozen foreign think tanks, mainly from the developing world, sought advice on their ongoing projects to promote free trade in their countries. Patrick Stephenson, an economist with the IMANI Centre for Policy and Education, a Ghanaian think tank, told me about his country’s “Investment Promotion Center Act.” It lists certain sectors in which “an enterprise which is not wholly owned by citizen [sic] shall not invest or participate.” The prohibition covers, among other things, “the sale of goods or provision of services in a market, petty trading or hawking or selling of goods in a stall at any place” (including taxicabs, beauty salons, and barber shops), and “the production of exercise books and other basic stationery.”

Foreign investors are allowed to create businesses in other sectors, but only if they meet some tough requirements. For example, “a person who is not a citizen may engage in a trading enterprise if that person invests in that enterprise

no less than one million United States dollars,” and “employ[s] at least twenty skilled Ghanaians.” The definition of trading “includes the purchasing and selling of imported goods and services” but, in a typically mercantilist fashion, trading for the purpose of *exporting* Ghanaian goods is not restricted.

Ghanaians also suffer from tariffs and other trade barriers. The latest Freedom of the World index ranks Ghana 113th out of 162 in freedom to trade internationally. Other developing countries on the list include Indonesia (94th), India (131st), and Sri Lanka (143rd), showing they too are ensnared in protectionist cultures and policies. China ranks 99th; before President Trump launched his trade war, the United States ranked 55th.

Hong Kong and Investment / Restricting both foreign investment and imports is

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not inconsistent. What *is* inconsistent is what the current U.S. administration does: restrict imports and claim to favor foreign investment. Other things being equal, the two move together because foreign investment is one way in which foreigners spend the dollars (or other foreign currencies) they earn from exports. The fewer imports come into a country, the less foreign investment flows in. If a country restrains imports, it discourages foreign investments, and vice-versa.

Consistent openness to the world is good economic policy. Consider Hong Kong, which has had no tariffs and virtually no non-tariff barriers since World War II. (Hong Kong ranks first in the world on both the general Freedom of the World index and its international trade component.) In 1950, the gross domestic product per capita of this tiny territory with no natural resources was 26% of American GDP per capita. By the time the territory was ceded to the Chinese government in 1997, the ratio had reached 85%. It then eclipsed the United States, before the Great Recession and a subsequent difficult recovery slowed Hong Kong down. Moreover, the future of what has become a world financial center has certainly not been boosted by the tightening grip of the Chinese government.

Figure 1 compares Hong Kong to the countries mentioned above. Hong Kong's remarkable growth rate surpassed even China's until the cession of the former to the latter (marked by the vertical bar). Hong Kong's general free-market environment helped this, but the specific freedom to trade internationally certainly played a major role, as economic theory and most econometric studies suggest. The liberalization of trade in China and some other developing countries explains part of their recent growth.

Escaping the absurd game / For several decades, Western governments and institutions encouraged developing countries to liberalize foreign trade, first with the 1947 General Agreement on Tariffs and Trade (GATT) and then the 1995 launch of the World Trade Organization (WTO). The resulting growth in international trade finally led to a dramatic reduction in world poverty. But some countries liberalized their trade to a broader extent than others or started liberalization earlier. It is tragic that, within a surprisingly short period of time starting around Donald Trump's election, the U.S. government stopped supporting trade liberalization.

One reason why liberalization has screeched to a halt is that it was based

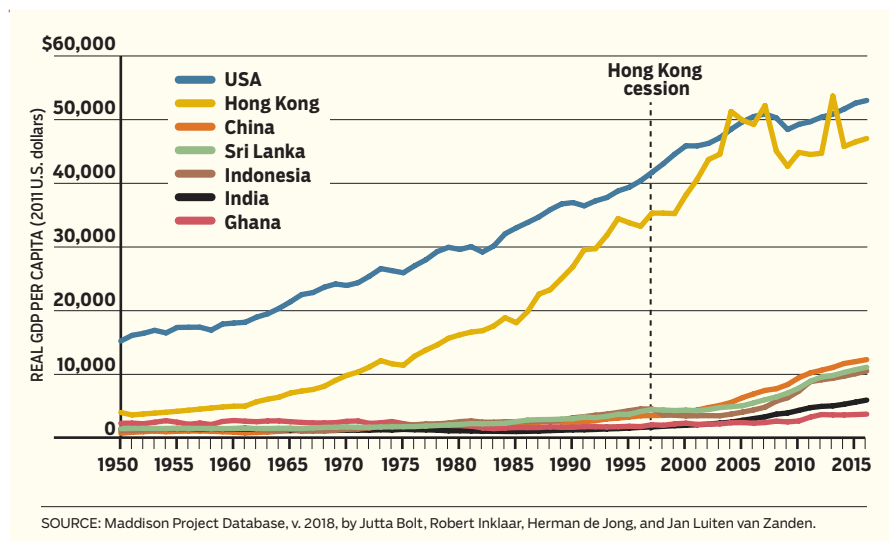
on a misunderstanding that could justify protectionism as well as free trade: that the benefits of trade come from exports and that imports are the cost to pay for these benefits. Nobel economist Paul Krugman explored this in a 1997 paper, "What Should Trade Negotiators Negotiate About?" (*Journal of Economic Literature* 35[1]: 113-120). His answer is *nothing*, because it is in the interest of the vast majority of a country's residents to not be subject to import restrictions whatever foreign governments do. As the late economist Joan Robinson quipped, protectionist retaliation is as sensible as "dump[ing] rocks into our harbors because other nations have rocky coasts." Krugman argues that the economist's case for free trade is essentially a case for unilateral free trade.

So, what can we do in the real world, where everybody seems intent on playing an absurd game where governments declare to each other, "If you hurt your subjects with import restrictions then I will hurt mine too"? What can we do to push the real world toward more rational trade policies?

First, a change of perspective is needed. If trade negotiators and their bosses read Krugman's article, perhaps they would continue trade negotiations but they would look at them differently. They would stop making "concessions" of the sort, "I agree to stop limiting my citizens' freedom to import if you do the same for yours." Instead, they would negotiate with other governments to mutually limit *themselves*: "Help us limit the capacity of our state to intervene in trade by agreeing to a treaty that will likewise restrain you from intervening." A free-trade treaty helps states resist the lobbying of their own producers against the common interests of their consumers. As Krugman put it, "The true purpose of international negotiations is arguably not to protect us from unfair foreign competition, but to protect us from ourselves."

If free trade treaties help do this, they are good. If, on the other hand, they embody the point of view of exporters—for

FIGURE 1
Real GDP per Capita



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example, by imposing minimum wages on foreign competitors, as the United States–Mexico–Canada Agreement (USMCA) would do to Mexico—then they are *not* good because they fuel the misleading view of free trade as a tool for producers. (See “Is NAFTA 2.0 Better than Nothing?” Winter 2018–2019.)

Second, it is necessary to educate the public and create a constituency that appreciates the benefits of free trade. The message to our fellow citizens should be that whatever other national governments do to restrict the freedom of their citizens, our government should *not* do the same. Measures of unilateral free trade attenuate the detrimental effects of foreign protectionism. Trump’s trade wars may have aided in this education process by showing consumers that they pay the tariffs that

their government nominally imposes on foreign producers.

Some might think this approach is unrealistic. It is certainly politically challenging, but not unwinnable. Hong Kong has shown the way. Another example is the abolition of the corn laws in mid-19th-century Britain after a group of intellectuals and activists taught the common people that domestic tariffs on wheat imports increased the price of their daily bread. With good social, political, and economic institutions, every country could be Hong Kong (hopefully without China).

Developing-world think tanks in the Atlas network are trying to change public opinion in that direction. We have to do the same in America and other developed countries. R

Is the Fed Impeding Real-Time Check Clearance?

◆ BY IKE BRANNON

Congress has tasked the Federal Reserve with executing the nation’s monetary policy, ostensibly free from political interference save for a broad congressional mandate that it pursue both price stability and full employment.

The Fed performs a variety of other tasks, including providing financial services to banks. One such service is a role in operating and overseeing the nation’s payments systems, including the mundane task of clearing checks. When someone receives a check and deposits it into an account, his bank must clear the check with the bank upon which it was written to ensure there are sufficient funds and then transfer the money into the recipient’s account. Nowadays, it typically takes a day or two for the Fed to clear a check.

But the market does not need the Fed to clear checks. Back in the 1850s, the largest commercial banks created an entity called The Clearing House (TCH)

to handle the task. It still operates today and clears about half of all checks written.

In late 2017, TCH began offering banks a service that can clear payments (including checks) within seconds, which offers a myriad of advantages both to depositors and banks. The service has proven popular and fully half of all depositors now have access to real-time payments. At the time it began the service’s roll out, TCH anticipated that nearly all depositors would have access to real-time clearing by the end of 2020.

This past August the Fed announced that it would begin taking steps to offer a real-time clearing service of its own, Fed-

Now. While a competitor in this nascent market may seem at first blush to be a potential benefit to banks and depositors, the reality is otherwise: the service is a natural monopoly best served by a single, private-sector entity. The Fed’s costly and delayed entrance into the market will delay bank customer access to the service and likely scuttle any hope of ubiquity with such a service, negating most of the potential gains from real-time clearing.

To understand why this is, it is necessary to understand who will benefit from the service, as well as the Fed’s historical role in clearing checks.

History of check clearing / A consortium of a dozen large New York banks created TCH to expedite the clearing of checks between institutions. The process of bringing all issued checks to a central location and settling the amounts owed between banks simplified operations and reduced the average time to clear a check. TCH operates essentially as a utility.

Until a few years ago, clearing checks necessitated physically transferring a check from the bank that received it to the bank from which it was issued—a labor-intensive and costly exercise. These days, check-clearing can largely be done electronically; many people deposit checks via a phone app and no bank ever takes physical possession of the check.

Until the creation of the Federal Reserve in 1913, TCH had no real competition—which made sense, as having a single entity collecting and returning checks to each bank reduced complexity and eliminated redundancy. That it was (and still is today) wholly owned by the commercial banks that benefit the most from its service obviates concerns about monopoly pricing; it does not price-discriminate, which means that smaller banks that do not have a stake in TCH are not at risk of being disadvantaged.

In 1972, at the behest of the U.S. Treasury, the Federal Reserve began offering electronic direct payment facilities to the federal government. At the time, the number of people employed by the government

or receiving government support had dramatically increased, which increased the number of checks issued by the government, along with its costs of issuing and administering checks.

The Fed initially provided its Automated Clearing House (ACH) services to the government for free. After a few years,

check-clearing market. Over the years it has offered various rationales for remaining. Even Alan Greenspan—perhaps the most famous libertarian in U.S. history—averred after becoming chair of the Federal Reserve that having it perform this service gave it useful data on financial markets. The changing rationales manifest the fact

account invariably rely on payday lenders, pawn shops, or title loan companies, which charge for their services and can be quite expensive relative to the money being exchanged and the customers' income.

Another 18% of the population have bank accounts but sometimes find it necessary to avail themselves of the services of payday lenders and the like because they are capital-constrained in some way. That banks cannot quickly clear checks is a primary reason that these “underbanked” must resort to costly nonbank services. For a fee, payday lenders can immediately make funds available to people.

Brookings Institute economist Aaron Klein estimates that the unbanked and underbanked paid about \$24 billion last year in various fees to payday lenders. The status quo does not work for these cohorts.

Natural monopoly / Commercial banks in the United States have belatedly come to realize that clearing checks immediately would not only benefit their customers but also improve the banks' bottom line. They can take business from payday lenders and expand their services to existing depositors. This would also simplify their business processes. Hence, TCH's entry into real-time check-clearing. But when the Federal Reserve announced in 2018 that it was considering entering the market, that effectively froze TCH's expansion plans, with few banks subsequently signing up for the service.

While it may seem logical to presume that two competing services would be better than one, that is not the case for this market. Each system necessitates a substantial fixed cost from each participating bank in order to clear checks in real time, along with a per-check clearance fee that would be somewhat higher than the current system.

The Fed's current, slower check-clearing system, which processes checks in batches intermittently, allows the Fed and TCH's system to be interoperable. However, competing real-time check-clearing systems would almost surely not be interoperable;

it began offering the service to banks as well, at a price well below the cost of providing the service. That made it difficult for TCH to effectively compete in the market.

Having the Federal Reserve compete against the private sector—especially in markets that it regulates—created some unease in Congress, especially given that the Fed was effectively subsidizing its ACH services for no good reason. One provision of the 1980 Monetary Control Act specified that the Fed needed to charge a price sufficient to cover costs for any services it provided. The act also directed the Fed to consider whether the private sector has the ability to offer a service before the Fed enters that market.

Not surprisingly, the Fed has failed to see any reason for it to withdraw from the

that there is simply no good reason for the Fed to compete against the private sector in this market.

Potential gains / A system that clears checks in a short period of time would benefit banks, but the real beneficiaries are low-income workers.

About 7% of the population does not have a bank account, according to the Federal Deposit Insurance Corporation. These “unbanked” forgo accounts either because they cannot get one—banks generally cannot give checking accounts to people who have unresolved bounced checks—or because it does not make financial sense for them to have one. For most of this cohort, depositing a check and waiting for even a short time to access that money is impractical. People without a bank



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the robust messaging functionality used by TCH's system would be lost even if it did become possible to bridge payments between two real-time systems. In Europe, where a private utility competes with the European Central Bank to provide real-time check clearing, interoperability between the two systems was promised but never achieved.

Having two competitors would require banks to either invest in each system or else force each bank to choose one provider. In the latter case, the bank could offer to clear checks in real time only if the payer's account is with a bank that uses the same system, which would negate most of the benefits. In other words, this market is effectively a natural monopoly, which means that the market would be more efficient with a single seller.

Some community banks aver that the Fed may be more amenable to their needs and possibly offer them a lower price. However, if the Fed hews to the Monetary Control Act by not providing an explicit or implicit subsidy to any customer, it is hard to see how that could be the case, especially given that TCH has already committed to charging all banks the same per-check clearance fee.

It is also worth noting that the Fed's summer 2019 announcement stated that it would need at least four years to roll out its system, further delaying the widespread adoption of real-time payment processing. If such a system does have the potential to substantially increase the number of bank customers and improve efficiency, then this delay in the market will reduce potential short-term bank profits—not to mention consumer welfare.

Benefit–cost analysis/ Until recently, independent agencies like the Federal Reserve had not been subject to regulatory oversight of their activities. However, a memo issued earlier in 2019 from acting Office of Management and Budget director Russ Vought clarified that the Congressional

Review Act (CRA) requires all agencies—even independent agencies like the Consumer Financial Protection Bureau, the Securities and Exchange Commission, and the Fed—to submit major regulations to Congress and the Government Accountability Office. (See “What Does the OMB Memo Mean for Review of Independent Agency Actions?” Fall 2019.)

The Office of Information and Regulatory Affairs (OIRA) is tasked with determining what is a major rule, defined as having an annual economic effect of \$100 million, increasing the costs of doing business, or affecting competition. Vought's April memo requested that independent

The real-time clearing market is effectively a natural monopoly, which means that it would be more efficient with a single seller.

agencies work more closely with OIRA to ensure CRA compliance. The Fed argues that expansion into real-time check clearing isn't subject to Vought's memo because the service is merely a new product line that it plans to offer various customers. However, this distinction doesn't seem sufficient to exempt the service from the CRA or the memo.

As part of its review, OIRA may want to discern how a regulator acting as a competitor will affect this nascent market, whether small banks will be disadvantaged if the Fed decides to offer steep volume discounts for check-clearing as it currently does for its ACH business, and what might be the broader economic costs of the Fed's action given that its delayed entry will force millions of Americans to continue paying check-cashers and leave the U.S. economy lagging behind other nations in real-time payments adoption.

OIRA should immediately signal that the Fed's final rule on real-time check clearing is subject to oversight under the CRA. OIRA and Congress should insist upon the completion of a benefit–cost analysis of

the Fed's creation of a real-time payments system that passes muster with OIRA, the same as the actions of other agencies.

Distortions/ One of the intentions of the Monetary Control Act was to provide guardrails for the sorts of activities the Federal Reserve should and should not undertake. High up in the latter category were activities that the private sector could provide efficiently. Clearing payments in real time is one such activity. If the Fed does follow through and offer this service, it would ultimately distort the market and increase the overall costs to banks of real-time clearing.

The rationales the Fed has offered thus far for entering this market simply do not hold water given that the market is a natural monopoly. Even if competition were necessary to drive economic profits down to zero, the fact that bank costs would essentially double in order to cover both systems means that no one will save money from the Fed's participation.

The Federal Reserve's 2019 announcement estimated that it would cost at least \$800 million and require four to five years of planning and investment before it will be able to offer its competing service. It also forecast that the Fed would not be able to recoup its investment in at least a decade, which seems to put it clearly at odds with the intent—if not the letter—of the Monetary Control Act.

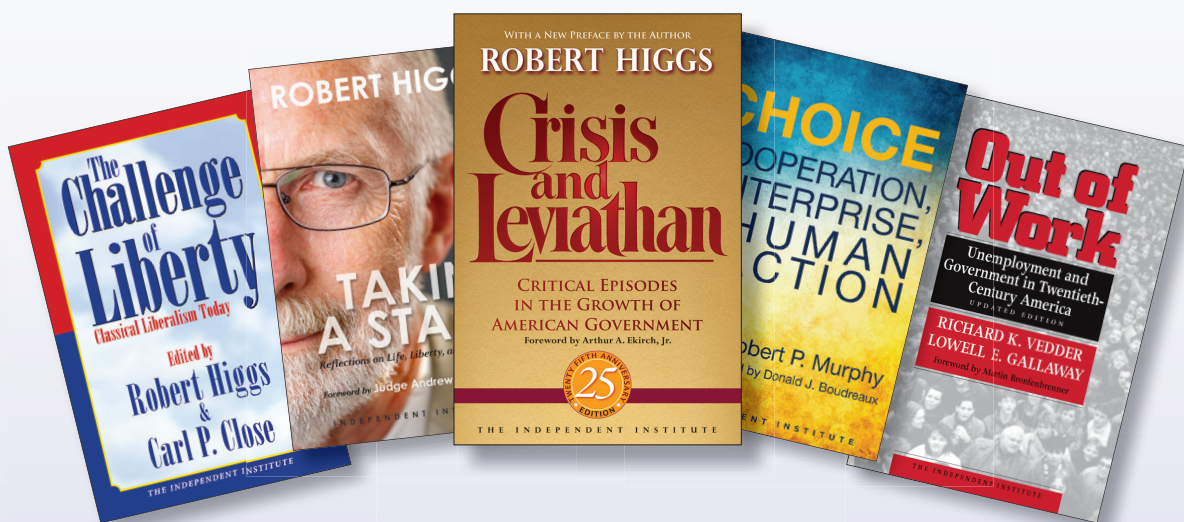
The government—and the Federal Reserve most emphatically is a part of the government, regardless of its ostensible independence from the executive and legislative branches—should strive to be a referee and not a participant in banking services. Its announced intention to offer real-time payment services to banks not only is at odds with this idea, but its ultimate effect on the market would be counterproductive, serving to delay TCH's expansion of this service and actually reduce the ubiquity of real-time check clearing. Ultimately, the Fed's entry will only increase banks' costs, impeding tangible benefits for low-income workers living paycheck to paycheck. R

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