Debate

The High Costs of Drugs

ISSUE: Is it ethical for pharmaceutical firms to charge such high prices for drugs in the United States?

What would you do if a drug that had cost only $13.50 a pill was suddenly raised 50-fold to $750 a pill? This was the scenario that consumers who took the anti-parasitic drug Daraprim found themselves in after Turing Pharmaceuticals bought U.S. rights to the drug. Drug-benefit manager Express Scripts found a solution to this conundrum by partnering with a compounder located in San Diego. A compounder develops customized medications by mixing pharmaceutical ingredients. Express Scripts has been able to get this alternative drug for $1 a capsule. However, this drug is not approved by the Food and Drug Administration, unlike Daraprim.

Many stakeholders have decried the high cost of certain pharmaceuticals. Even those with insurance often pay a significant percentage of the cost. Other times insurers will restrict access to drugs that are highly expensive, which could result in the patient not getting as much of the medicine as he or she needs. And while the state health care systems of many other countries cap drug prices and work directly with pharmaceutical companies to manage prices, this is not the case for the United States.

Another issue is the fact that many pharmaceutical companies have artificial monopolies on new drugs because of patents. Because of patents, companies can use innovation to develop new products and gain enough revenue to recoup investment and make a profit. Under a patent, competitors cannot copy or sell the drug. Unfortunately, this also can lead companies to overprice their products. As the only seller of the product, it can charge whatever it wants. Gilead Sciences Inc., for instance, tried to launch a new hepatitis treatment product for $1,000 a pill. The strategies that pharmaceutical companies use to price new products is a closely guarded secret.

Critics are outraged at what they view as price gouging. They feel that a lack of competition has led to pharmaceutical firms setting exorbitant prices that most consumers cannot afford. Another reason pharmaceutical companies are thought to charge such high prices is because drug companies in the United States work mostly with insurance companies and health care systems. Therefore, they are pricing their drugs to be whatever they believe the insurance is willing to cover, rather than worrying about whether the average consumer can afford it. Even the Senate has gotten involved with what it believes are incredibly high prices. The Senate reviewed 20,000 pages of documents from Gilead and determined that the managers of the firm knew that the drug was priced outside of what many consumers could afford. The perception among critics is that pharmaceutical companies are greedy for profits and will seek to get the most money from its products despite consumer well-being.

Pharmaceutical firms offer another justification for why prices have gone so high. The research and development of new drugs can be incredibly expensive, especially considering that many drugs fail and only 20 percent of drugs earn enough money to make up for research and development costs. According to the industry, companies spend approximately $2.6 billion and 10-15 years to develop a new drug and bring it to market. One study revealed that companies lost approximately $26 million on each new drug developed between 2005 and 2009. Some of the

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newer drugs are made using living cells, which require precise work that costs companies more. Industry executives argue that if a limit is placed on drug costs, it would jeopardize future innovation and research in the industry.

The CEO of GlaxoSmithKline has directly countered the argument that drug companies lose $26 million on each new drug developed. He claims this number is inaccurate because it also includes the cost of failed experiments that never make it to the market. On the other hand, supporters claim that if U.S. prices were closer to prices in the European Union, then many firms would have to decrease their spending on research and development. Additionally, some diseases are very rare, even if they are devastating. The CEO of Turing claims that the high price the company has placed on Daraprim aligns more with the prices of other products used to treat rare diseases. He maintains that the high prices are necessary to keep the company in business and that some of the money will be used to fund better treatments for the future.

There are two sides to every issue:

1. Pharmaceutical firms should not be allowed to charge such high prices because they harm consumers and do not reflect market realities.

2. Pharmaceutical firms must sometimes charge high prices for drugs to recoup their investment and have funds necessary to develop better treatments.

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