It is immoral for the drug companies to charge large sums for drugs that are cheap to manufacture.

Six months. It can pass in the blink of an eye - packed with exams, seasonal celebrations and busy work-lives - but if you were asked to state a value for the previous six months of your life, what price would you choose? Can you put a price on all your experiences, emotions and relations over a period of 6 months? Some say it is immeasurable. But for others this price is very clear. Kadcyla, a revolutionary drug for patients diagnosed with breast cancer, costs £90,000 per treatment which extends a patient’s life merely by 6 months. This essay will explore and analyse whether it is moral for drug companies to charge such colossal prices for drugs which are, when analysed, much cheaper to manufacture.

It can be considered immoral through both an individual and national perspective for several reasons. Individually, high drug prices can simply prevent patients accessing the treatment because they, or a healthcare service like the NHS, cannot afford it. This deprives patients of potentially life-changing treatment and could cause early deaths. Secondly, when patients pay such a high price, relative to manufacturing costs, the patient is being exploited (since the true value isn’t being fairly reflected in the price). Finally, the benefits of the drug may not reach the potentially inflated claims of the manufacturer attached to the steep price tag. In these cases, the patient has had a great opportunity cost, taken the risk of developing side effects and the emotional stress (of being fed corrupt and falsely positive expectations). In short, this can dry up money available to spend on alternative drugs and the patient is worse off, in all dimensions – emotionally, financially and medically.

It can also be perceived as immoral on a national scale. In March 2015, soaring prices led to the World Health Organisation (WHO) highlighting the fact that the repercussions of high drug prices are most acute in low- and middle-income countries. This results in an unequal access to drugs across European countries and widens the ever-growing gap between wealthy countries and those which are not. It’s not postcode lottery, it’s a national lottery. The Developed West can afford these drugs but our poor neighbours in Africa can’t: we no longer have global citizenship.

However, to accuse an industry of immorality needs deeper analysis. Although manufacturing costs may be cheap, a successful drug requires researching, testing, clinical trialling, regulatory approval and marketing. It was estimated in November 2014 (by Tufts Centre for the Study of Drug Development) that the process of researching and developing a new blockbuster drug costs approximately $2.56 billion. This has risen by 145% since an approximation of $800 million in 2003. This has been explained by our population living longer with every generation: diseases are becoming increasingly complex and hence the drugs required to treat them are becoming so too. For example, there has been a shift in demand for treatments for chronic and degenerative diseases, which are far more challenging to treat than acute diseases.

To many firms, these high start-up costs act as a natural barrier to entry, preventing the formation of a competitive market and resulting in a monopolistic or oligopolistic one. In addition, high sunk costs, such as investment, make it a very risky business. In order for drugs to be provided, firms need the incentive of high profits to justify this great risk. BBC News Health states “only 1 in 10 potential treatments in the lab actually reach the clinical trial stage on humans.” which underlines the low success rate of the industry. Without high profits at the end, firms may cease to enter the industry and development would be further slowed. Hence it could be seen as only fair that drug companies can make supernormal profits when a drug is successful.

Many would argue that the price of a drug should be set on the value of the drug, both to individuals and to society as a whole, however this value can be challenging to ascertain. One method is through the use of QALY – quality-adjusted life years – which analyses the quantity and quality of life lived per treatment. If it is a miracle drug, what is its real value to an individual? Surely, if a patient values a treatment as £1m, it is not immoral to charge this? As an example, US drug manufacturer, Gilead Sciences, has become the face of an out-of-control profit-maximising company, charging $1,125 per pill for Hepatitis C, but some people may be prepared to pay even more for this ground-breaking treatment.

It can be challenging to analyse data regarding drug prices due to the heavy bias which underpins most research. Studies have criticised the legitimacy of R&D estimates. A topical example is the contradiction between estimates by Tufts Centre for the Study of Drug Development in Boston ($2.56bn) and the estimate by Knowledge Ecology International ($650m). These significant differences shake the foundation of the argument for astronomical drug prices and governments must intervene to make true costs of development transparent.

This begs the question, are pharmaceutical companies overestimating their costs to hide their gluttonous exploitation of the most vulnerable? However, the cause for such diverse estimates may be the complexity of estimating a figure. For example, should it include just the direct R&D costs for an individual drug or should it cover the costs of the large number which fail before one gains regulatory approval? In addition, opportunity costs must also be considered; whilst developing a new drug, investors forgo other alternative returns. Hence the cost of R&D is a difficult factor in analysing the morality of drug companies.

However, can anything be done about this issue? Special profit taxes, price controls or even nationalisation are all options but history warns against these solutions on efficiency grounds. Another method is to shorten patent protection lengths, encouraging new firms to enter the industry. This should increase competition and create short-term benefits of lower drug prices, fighting against immoral profits.

However, there is a fundamental flaw to all these actions. They jeopardise the long-term future of the drug industry, the dynamism of Adam Smith’s invisible hand. By removing profits, a missing market will follow as entrepreneurs will invest elsewhere. New drug research will grind to a halt and ultimately, diseases will develop more quickly than our ability to stop them.

It is beyond doubt that colossal drug prices are immoral. They widen the pre-existing divisions in society and across continents. However, the real question is what is best for the healthcare industry in the long-term? We need the market solutions. We need the inventors and the incentives. Society needs these new drugs. Unfortunately, in our capital model, high prices and high profits to reward private sector risk are the only answers to this question.

Is it immoral? Yes.

Are high prices going down?

No.