

Colloque

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Should new drug prices be based on cost?

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Given escalating expenditures für new medicines (notably including new cancer treatments), the prices of new drugs are a heavily debated topic worldwide. Considering the high fixed / low variable cost structure of the research-based pharmaceutical industry, it has been proposed to counter the rising prices for new medicines by setting price caps based on the development costs actually incurred by companies.

However, developing new drugs is a risky, protracted and expensive process, and the fully loaded costs of successful new product development would need to capture the costs of failures and the time value of capital beyond cash-outlays conventionally accounted for. Published data confirm a long-term trend of steadily increasing expenditures on research and development (R&D) for each new molecular entity (NME) approved, despite substantial variation. Analyses highlight differences depending on the area of treatment, with the estimates for cancer drugs being considerably higher than those for other medicines (from \$944 million to \$4.54 billion per NME).

Cost-based pricing policies for new drugs are not only difficult to implement but would also raise the fundamental concern that they might take away the incentive for manufacturers to accelerate R&D and to conduct it efficiently. From an economic point of view, there exist strong arguments for pricing based on the value of a drug rather than solely based on costs.

References

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