

**Article:**

<https://www.thehindu.com/news/national/high-cost-of-vaccination-at-private-hospitals-unacceptable-paul/article34763106.ece>

**Government caps prices of COVID-19 vaccines at private hospitals**

The high price of COVID-19 vaccines at private hospitals is unacceptable, says V.K. Paul. The Centre has capped the prices at which vaccines will be sold at private hospitals. With a ceiling of ₹150 that hospitals can charge per dose as 'service charge' and a GST of 5%, the maximum price chargeable for Covishield is ₹780, for Covaxin, ₹1,410 and for Sputnik V ₹1,145, the Union Health Ministry said in an order on Tuesday.

The State governments would be entrusted with ensuring that these price barriers were not breached and if, in future, vaccine prices fell, it would influence the maximum cap. The high price of COVID-19 vaccines at private hospitals is "unacceptable", and the revised vaccination policy will see reductions, said V.K. Paul, Chairman of the National Expert Group on Vaccine Administration for COVID-19, on Tuesday.

Dr. Paul's remarks came a day after the Centre announced a revised vaccine policy from June 21 in which everyone above 18 will be eligible for free vaccines at government centres and State governments will no longer need to compete to buy vaccines.

Addressing a press conference, Dr. Paul said, "It is unacceptable that hospitals charge ₹1,600 or even ₹4,000 for vaccines that cost ₹600. They must limit their price. Earlier it was ₹100 and we felt that there is a need for it to be increased. We are confident that this will encourage more hospitals, across the country and not just big cities, to come forward for administering vaccines."

Though vaccines would be available to all the Centre would continue to give "the highest priority" to healthcare workers, Dr. Paul added. Currently, nearly 9,000 private hospitals across the country are involved in the vaccination programme, and the government expects more of the 25,000-30,000 hospitals across the country to be more involved in the programme.

States would also be tasked with aggregating demand of private hospitals keeping equitable distribution between large and small hospitals and regional balance, Dr. Paul added.

Referring to the Supreme Court's comments on the inequity of vaccine distribution, he said that while the Centre "respected" these views, the changes in policy were a result of continuous monitoring by the Centre and feedback from all sections of society.

Prices for vaccines would be declared to hospitals in advance by companies, he added.

While everyone would be eligible for free vaccines, people could, of their own accord, opt for paid vaccinations as well as offer to pay for anyone else's vaccines via electronic vouchers, Dr. Paul added. There would also be the option of on-site registration for everyone over 18 unlike the current system where everyone in the 18-44 category needs to register in advance on the CoWin portal.

Private hospitals have, however, expressed reservations over the changed norms. The larger hospital chains that dominate vaccine procurement say the price is too low given the higher costs the hospitals incur, and the government should aim to reduce the vaccine prices for the private hospitals as well.

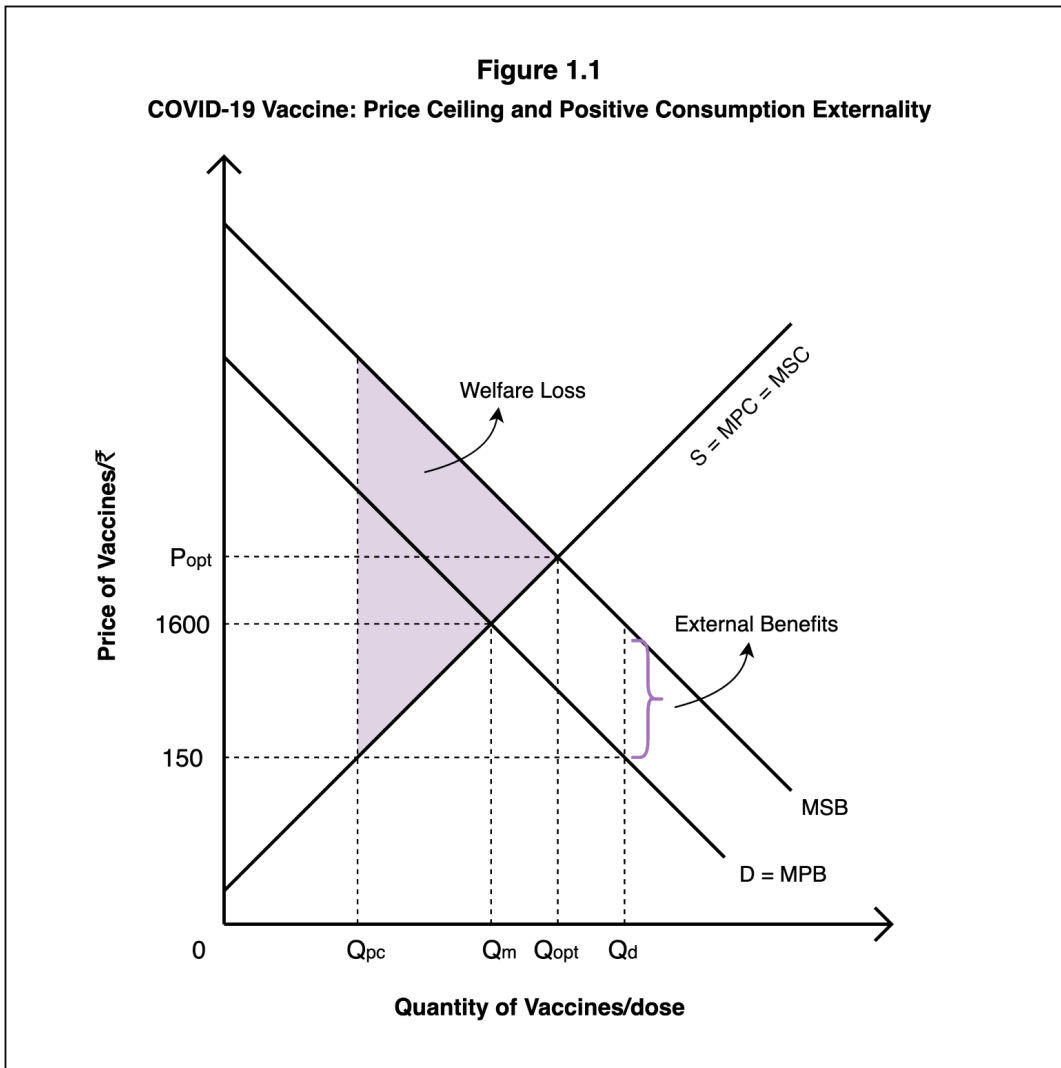
"The cap of ₹150 will not cover the additional costs incurred for such off-site vaccination camps which involve substantial costs... We urge the government to consider a higher charge," Fortis Healthcare said in a statement on Monday following Prime Minister Narendra Modi's address.

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### **Commentary:**

The above article discusses the price ceiling placed on COVID-19 vaccines in Indian private hospitals. The Indian government capped the price of the good at ₹150 due to resistance towards the original prices that ranged from ₹1,600 to ₹4000. Therefore, ₹150 became the legal maximum price that producers could charge for vaccination in June of 2021. This policy helps engender a positive externality of consumption as the low price encourages vaccination, in turn preventing further spread of the virus.

Moreover, the new price (₹150) supports the **economic well-being** of consumers by making the vaccine more affordable for high, as well as lower income earners. The price cap hence encourages high levels of prosperity and quality of living standards by bettering the health of vaccinees. By extension, this policy sustains the financial security and ability to meet basic needs of vaccinees.



Assume that quantity  $Q^*$  is being sold at ₹1600 when the market is in equilibrium. Imposing a price below the market-clearing price, the price ceiling elicits a lower quantity supplied than at equilibrium. In Figure 1.1, the setting of a legal maximum price (₹150) reduces the quantity supplied from  $Q_m$  to  $Q_{pc}$ , leading to a higher quantity demanded,  $Q_d$ . This situation hinders the forces of demand and supply, thus creating disequilibrium in the form of a shortage. Moreover, a deadweight loss is formed as the demand of consumers is not met by producers. In other words, there is underproduction of the vaccine in the market.

However, consumption of the vaccine causes external benefits to third parties who are not involved in its production or consumption (unvaccinated people). This is considering that a vaccinee is not only protected from the virus themselves, but also reduces the prospect of transmitting it to others. However, there is underallocation of resources to the production of this good relative to the social optimum,  $Q_{opt}$ . Hence, although the vaccine has spillover benefits, its consumption creates a welfare loss as depicted by the purple triangle in Figure 1.1. The community surplus at the initial equilibrium is greater than at present, which is further evidence

of a loss in welfare. Nevertheless, consumers create external benefits for society by getting vaccinated, as shown in the above graph.

The vaccine is an effective preventative measure against COVID-19, deeming it a need in the current world. As it has a low elasticity, changes in price have little to no effect on consumer demand. However, it is important for the vaccine to be affordable for high, as well as low-income earners. Therefore, the government intervening and capping the price at ₹150 is beneficial to the Indian economy. Nonetheless, this policy has its disadvantages. Firstly, it lowers supply, creating a shortage in the market. At  $Q_m$ , not all consumers that are interested in vaccination are able to do so due to the short supply. This may also instigate the formation of inequitable underground markets that will illegally resell the vaccine at a price that exceeds ₹150, the legal maximum.

In this situation, consumers (those interested in vaccination) partly gain and partly lose. They are offered the vaccine at a lower price (₹150), but some remain unsatisfied owing to the shortage. Producers of the vaccine in India (Bharat Biotech and Serum Institute of India) are worse off as they are selling a lower quantity of the good at less than one tenth the original price (₹1600). Due to this, Bharat Biotech and Serum Institute of India will face a decrease in revenue and may lay off workers to cut back on costs. Thereby, workers are worse off too. On the contrary, the government will face no gains or losses in terms of their budget. However, they might gain political leverage because of increased support from consumers that benefited from this price ceiling.

Although it makes the vaccine more affordable for consumers in the short run and supports economic well-being, this price ceiling has its disadvantages in the long term. As aforementioned, it leads to a shortage in the market. In addition, an opportunity cost is introduced. In other words, the quality of the vaccine may be compromised as consumers are now paying a lower price for it. In addition, the welfare loss created due to the positive externality of consumption (represented by the shaded triangle in Figure 1.1) also increases economic inefficiency. This is as there is underconsumption of the vaccine as demand of consumers is not adequately met by supply. Society is thus worse off. All in all, economists worry that the long-term consequences of establishing a legal maximum price for a good outweigh its advantages. Alternatively, the Indian government could create awareness about the many benefits of vaccination amongst consumers through campaigns. This would both encourage vaccine consumption, and avert the problems created by the price ceiling.