



## POINT/COUNTERPOINT

## What exactly IS Martin Shkreli?

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<b>POINT</b>	<b>COUNTERPOINT</b>
<p><b>Martin Shkreli is many things, but he is not an entrepreneur</b> (Plummer &amp; Mitchell)</p>	<p><b>Martin Shkreli is an entrepreneur, albeit an immoral one</b> (McMullen)</p>
<p>Martin Shkreli, the founder of Retrophin and former CEO of Turing Pharmaceuticals, has been scorned by journalists and policymakers for what widely is seen as a reprehensible act of price gouging, the likes of which has rarely been seen in American business. For his efforts, Mr. Shkreli has been called arrogant, brash, evil, greedy, haughty, supercilious, and . . . entrepreneur.</p> <p>While he may rightly deserve most of these labels, he does not deserve the title of entrepreneur. In our eyes, entrepreneurs create new value, and Mr. Shkreli's actions—specifically, buying the rights to older drugs, adding or changing nothing, and hiking up their prices exorbitantly—do not qualify.</p> <p>Entrepreneurs create new value through creativity, ingenuity, innovation, novelty, problem solving, and persistence. While some of the value created by entrepreneurs takes the form of private returns they and their investors receive, it also exists in the new products, services, innovations, ways of doing business, and jobs entrepreneurs create. Our view of entrepreneurship embraces its many and varied forms, but also provides a level of clarity in the case of Mr. Shkreli. For starters, price gouging is <i>not</i> entrepreneurship because it does not create new value.</p>	<p>Professors Plummer and Mitchell make an interesting case against the media's depiction of Martin Shkreli as an entrepreneur. But morally despicable as his actions may be and as much as I would like to disassociate him from anything related to entrepreneurship, it is simply not possible given an understanding of entrepreneurship as the creation of new value.</p> <p>Profit is not possible without the creation of new value. To realize a profit, a voluntary exchange must occur: someone must offer a good or service to someone else who is willing and able to pay the offering price. Whether this transaction is performed once or repeatedly, is reflective of monopoly conditions or conditions closer to a competitive market, is new to everyone in the world or to a single stakeholder, is socially desirable (e.g., product innovation) or socially undesirable (e.g., rent-seeking, black market), or is conducted in good faith or under fraudulent circumstances—all are qualifications of this fundamental tenet. Thus, when initiating a transaction, one is of the genus entrepreneur, but his/her species is likely to vary in accordance with these qualifications.</p> <p>Understanding this premise is essential for understanding why Martin Shkreli is indeed an entrepreneur, why acknowledging this fact is fundamental to preventing misguided public policy, and why it is important if we are</p>

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To be clear: We're not saying that Martin Shkreli is not an entrepreneur because he is someone we cannot admire or because his avarice scales the heights. Instead, we are saying that Mr. Shkreli is not an entrepreneur because his actions are not entrepreneurial for at least two reasons.

First: Shkreli may have started a company, but he created nothing, innovated nothing, offered nothing new, and solved nothing. Instead, he repriced existing products to extort the value created by others—at the expense of patients who needed these drugs, the insurance companies that paid for them, and other insurance customers who will probably end up paying higher premiums as a result of Mr. Shkreli's actions. From this point of view, Mr. Shkreli seems to be a rent-seeker: someone who seeks to acquire personal wealth without creating new wealth.

Second: The fact that patients paid exorbitantly higher prices for the same drugs neither implies that the market undervalued the drugs nor suggests that Mr. Shkreli's actions had an equilibrating effect on the market, a key economic function often attributed to entrepreneurs. Rather, the fact that patients paid the inflated prices simply reflects Shkreli's manipulation of a highly inelastic demand for monopolized pharmaceutical products. This brings up a significant albeit theoretical point: Scholars such as Frank Knight have long described entrepreneurs as the bearers of uncertainty. In our interpretation, Mr. Shkreli faced little uncertainty because he knew that those desperate for their treatments would certainly accept much higher prices.

While some may question why we refuse to label Mr. Shkreli's actions as entrepreneurial, we argue that the distinction is important because in the public sphere it has become increasingly common to celebrate the achievements of entrepreneurs and to encourage others to follow suit. Indeed, millennials may well be the most entrepreneurial-minded generation ever, but whom do we want them to emulate?

More to the point: As legal experts, policymakers, educators, and the court of public opinion struggle with what to do about Mr. Shkreli and others like him, the question of who is not an entrepreneur becomes crucial. For example, how we classify the likes of Mr. Shkreli has policy implications. Explicitly excluding him from the ranks of entrepreneurs could help Congress enact policies intended to target the specific type of price gouging Mr. Shkreli wrought, without affecting the many paths to truly innovative and value-creating entrepreneurship. Conversely, if we continue to identify Mr. Shkreli as an entrepreneur, any debates regarding his actions will be misleading, raising the risk of policies being enacted that impede—albeit unintentionally—the forms of entrepreneurship we should encourage.

going to encourage students and practitioners to discriminate between moral and immoral entrepreneurial behavior.

The creation of new value does not necessarily ensure that value is created for parties beyond the transaction. Unless encouraged by legal and social institutions, entrepreneurs may chase profit through rent-seeking or crime as opposed to product innovation. All three behaviors break norms, are therefore innovative, and incur different social consequences for violating the status quo. For instance, product innovation breaks with convention to reveal the value of new knowledge such that entrepreneurs are declared brilliant when successful and foolish otherwise. Slightly more socially deviant is rent-seeking, which is often considered unethical and is socially shunned as a result. Finally, crime is the most socially deviant of the three; it is declared illegal and often punished through restrictions on life, liberty, or property. All three behaviors break rules to seek profit through the provision of goods or services that others may be willing and able to pay for. Consequently, each involves innovation and uncertainty bearing, but it is the norm being violated—as opposed to any substantive difference in the behavior itself—that determines the social undesirability of the new value they create.

To further confuse matters, categorization of new value creation can be fluid over time. What once was considered simply unethical can become illegal at one extreme or socially endorsed at the other. For example, the services that led to Arthur Andersen's demise were unethical but not illegal at the time; that has since changed. At the other extreme, marijuana sales in Colorado went from illegal to legal almost instantaneously following a successful public referendum. In practice, drug dealing was the same activity both before and after the vote. Did the nature of this activity somehow transform with the cast of a ballot? Legally, yes. . .but behaviorally, no. New value was being created for customers before and after the law changed, but the perceived social costs of governing the industry evolved. Therefore, unless we are comfortable with a normative definition of entrepreneurship that is subject to continuous change in public opinion, it is important to recognize that all forms of new value creation are entrepreneurial, but because they are innovative in different ways, they are not equivalent in their social desirability. Thus, I suggest that it is more fruitful to view entrepreneurship as new value creation regardless of its social desirability, while concurrently distinguishing socially desirable from socially undesirable forms as based on norms violated by the entrepreneur's innovation.

The fact that Retrophin has realized profits proves the company has created value for buyers: those who survived another day by taking Daraprim. The fact that it has realized monopoly rents is testament to the company's creation of new value for investors. Customers are not the only stakeholder group capable of determining the novelty of value creation. No one ever wants to pay more for the

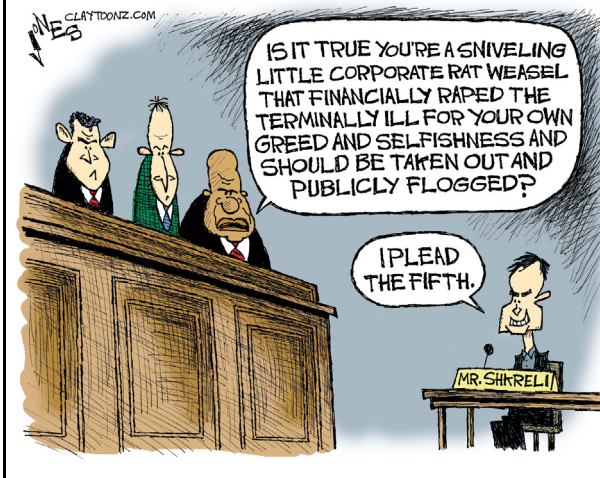
Although congressional action related to companies like Retrophin or, more recently, Mylan seems unlikely, our point is hardly moot. Mr. Shkreli should not be called an entrepreneur, and knowing why he should not be essential to the decisions and public discourse we ought to be having about the business activity we want to encourage, champion, and reward.



same good or service, but prices are determined by current market demand, not historical prices or the cost of production. Clearly, Daraprim was priced below what the market would bear; otherwise, profit could not have been earned through price gouging—an increase of over 5000% per tablet. Rather insensitively and foolishly, Martin Shkreli tried to defend his actions through metaphor: “If there was a company that was selling an Aston Martin at the price of a bicycle, and we buy that company and we ask to charge Toyota prices, I don’t think that should be a crime” (Ramsey, 2015). The real issue is not whether Mr. Shkreli’s decision to charge Toyota prices for a bicycle-priced Aston Martin was or was not entrepreneurial. His actions created new value for investors, if no one else, which begs a number of questions: Why was an Aston Martin priced like a bicycle in the first place? How could Retrophin ever price an Aston Martin like a Toyota and make a profit? And if by some miracle it could, how could it continue to do so without fear of competitors entering the market to do the same? Either something is wrong with Martin Shkreli’s metaphor or with the institutions in which Retrophin’s market is embedded.

Despite Mr. Shkreli’s price gouging, demand still existed for Daraprim. This suggests that the drug was already in short supply or that Retrophin made it so through its actions. Either way, scarcity is the culprit. But what caused this scarcity and what causes it to persist? If the shortage is independent of Shkreli’s actions, then Retrophin’s profits demonstrate that some buyers are willing to pay a lot more than others to acquire the drugs they need to survive. Perhaps they were, indeed, getting an Aston Martin for the price of a bicycle. This could imply that individuals not desperate for Daraprim were nonetheless consuming it because it was priced below true market value. For example, government can enforce rules to ensure that all individuals, regardless of income, receive equal access to life-saving drugs—whether or not those meds are truly needed for survival. Situations like this are notorious for the moral dilemmas they pose, as they pit need against ability to pay and test society’s perceptions of the market as a just mechanism of resource distribution.

Does it change the argument if Mr. Shkreli created this drug shortage? Morally, yes. It makes Retrophin’s profit-seeking behavior that much more deplorable. But contrary to arguments by Professors Plummer and Mitchell, it makes Mr. Shkreli’s behavior more, not less, entrepreneurial. To capture new value, new entrants must exploit or create barriers to entry that prevent others from instantly competing those profits away. In Retrophin’s case, that barrier appears to have been moral in nature. Martin Shkreli saw a market with inelastic demand and, owing to patent law, a statutorily limitable supply. Retrophin captured the right to that supply at a known price, only to sell at a price much higher than the extant market rate. Although an accounting profit was basically guaranteed, an economic profit (i.e., accounting profit minus opportunity costs) was not. Mr. Shkreli was willing to bear the social costs of immoral behavior



(e.g., public scorn) that others were not; the uncertainty of whether the government would honor patent law despite public outcry; and/or the uncertainty of forgoing other promising opportunities that could have proven to pay even better than the antiparasitic drug, Daraprim.

Whether Retrophin created scarcity or merely exploited it, Shkreli's actions were innovative; otherwise, he would not have realized the profits this debate is centered on. Martin Shkreli's innovation involved challenging society's moral norms of behavior. Innovation in moral norms is by no means unique to Shkreli, Retrophin, or the pharmaceutical industry. The insurance industry, for example, was considered an abomination—a moral affront to the will of God, even—when it was first proposed. Customers and investors initially reacted to the notion with a similar measure of hostility that is difficult for many now to understand, much less endorse. Doubtless, few would line up to defend Mr. Shkreli on ethical or moral grounds. His actions are, however, presumably legal for the time being. They are also likely to change the rules of the game, precisely because Shkreli has now revealed an economic opportunity for anyone who lacks moral scruples.

Historically, why were so many people willing to forgo this opportunity? The likeliest answer is that lives lie in the balance and most members of society still believe there should be limits to markets. For example, markets for human organs and child pornography are against the law, regardless of demand. Martin Shkreli's violation of ethical norms tested the moral limits of markets and elicited public outcry. It should be noted, though, that government statutes—not markets or avarice—created the opportunity that Shkreli exploited. If a statutory monopoly had not been granted in the form of a patent on Daraprim, no opportunity would have existed for the violation of moral norms. Retrophin now enjoys monopoly rents at the public's—or at least, their customers'—expense in the name of potentially questionable intellectual property rights policy. Moral decency simply prevented it from happening sooner.

What now? Should we outlaw behavior like Mr. Shkreli's? Should we denounce it as unethical or immoral? Or, might it be worthwhile to ask what characteristic of the U.S. healthcare system created the opportunity to exploit the most desperate among us? Somewhat counter-intuitively, the solution might be the same as the problem. To contradict Shkreli's rent-seeking, we need more profit-seeking behavior—but of the productive nature outlined by Professors Plummer and Mitchell. Policy makers may want to begin by asking whether and how to remove obstacles that prevent entrepreneurs in new or existing firms from producing equivalent generic drugs that would loosen Mr. Shkreli's hold on the market, or creating new drugs that could cure protozoal infections and render Retrophin's Daraprim inventory valueless. Undoubtedly, Retrophin's profits have already encouraged competitors to begin considering both of these responses. In this case, the problem does not seem to be with profit seeking or the



Time to take his medicine...



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market per se. Instead, it appears to be with the institutions in which that market is embedded. Social and moral institutions may once have been sufficient to discourage socially undesirable behavior that legal institutions alone could not; that no longer appears to be the case, given Mr. Shkreli's violation of moral norms.

There will always be opportunities to exploit others for profit, and some entrepreneurs will seize these. The key is not to blame the profit seeking that is inherent in all forms of entrepreneurship, but rather determine the nature of this exploitation and whether a market obstruction has been created by public policy, and consider whether such exploitation would cease if the market obstruction were eliminated or reformed. In so doing, other entrepreneurs become empowered to innovate, compete away the profits of rent-seekers, and liberate customers from exploitation. This process is by no means instantaneous. Rent-seekers like Martin Shkreli will enjoy rewards for testing society's limits, but unless protected by government statute, this exploitation is likely to be temporary. Outlawing socially undesirable behavior may appeal to many, especially when shunning such behavior no longer appears to be effective; however, force is rarely efficient over time. Instead, might we look to the innovation that Professors Plummer and Mitchell champion as the hallmark of true entrepreneurship and seek to eliminate the institutional barriers responsible for the exploitation by reforming public policy or incentivizing competition?

If we recognize that there will always be potential for entrepreneurial behavior to take unethical or even immoral forms, it becomes that much more important to emphasize the power of choice and responsibility. And if our students as future practitioners are likely to have the power to exploit the poor/disenfranchised or take advantage of the uninformed through entrepreneurial behavior, we must discuss how universal values should inform entrepreneurs' decision making under conditions of uncertainty. This needs to extend beyond superficial debates about the relative merits of corporate social responsibility versus the cost-benefit analysis of economic consequentialism. In a world of moral relativism vs. religious fundamentalism, and laws that do not necessarily keep up with the social changes and resulting professional practices that stem from technological advancement, how can we help our students not only choose to act responsibly but also hold others accountable who otherwise would act immorally in order to profit unscrupulously? We need to do more than merely teach students how to profit without going to prison. Few would disagree that Martin Shkreli's despicable actions, coupled with his shamelessly self-righteous defense of those actions—whether entrepreneurial or not—are evidence of that.

## Reference

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