medical problem. Nevertheless, it should be well understood that the price differences paid at the retail level by consumers for drug products marketed by brand names and those marketed under a generic name are not nearly so high as statements of previous witnesses would have one believe.

Furthermore, price variations of the order of 50 to 100 percent and more between different manufacturers or sellers of "identical" or substantially similar consumer products are not at all unusual in most fields. Differences in quality, reliability and satisfaction are matters for the subjective and often differing judgments of consumers, and they are properly resolved and balanced against price in the marketplace.

The parallel between prescription drug product choices made by a trained physician and other consumer product choices made by the general public is admittedly far from exact. But it is significant that the general public regularly balances quality against price, and is often willing to pay a wide differential in price for compensating differences in quality. Product differentiation and price variations are hallmarks of our free market economy. The important thing is not to force this wide range of prices into some narrower band, but to give consumers, and in the case of prescription drugs to give doctors and other practitioners, as much information as they need about the variety of items available, the comparative merits of each and their differing prices to consumers.

The Issue of High Profits

Much has been made and continues to be made of the question of drug industry profits. Some, who on the one hand praise the pharmaceutical industry as the source of life-saving, health-giving drug products, on the other hand accuse it of making unconscionable profits at the expense of the ill and elderly.

It does not seem to matter that the price level of prsecription drugs, as indicated, has been declining in the last 10 years by more than 10 percent, while the prices of other necessities have been pushed up by inflationary pressures of the period.

In this high-risk industry, a high rate of profit is essential to attract the capital and other resources necessary to achieve further breakthroughs in medical progress. As you know, we have requested an opportunity for a team of economists to appear as a part of our presentation to discuss the "high-risk" nature of the industry and to present the results of studies which have been conducted for us this year comparing the drug industry with a number of other manufacturing pursuits. These men are now scheduled to testify on November 29.

They will point out that arbitrary reduction or elimination of the manufacturer's profit would not produce a substantial reduction in the price a patient pays for a prescription. We must look elsewhere than to manufacturers' profits in reducing prescription prices to the public.

Let me go further and ask this question: "Is the public interest served or harmed by the slight differential in retail drug prices caused by the fact that the profits of drug manufacturers are above the national average for industry generally?"

We think the public interest is served, not harmed, when quality-conscious and research-oriented prescription drug manufacturers earn enough to intensify their activities and to attract other like-minded firms to enter the field.

The development and marketing of new drug products is an uncertain enterprise at best. The percentage of the sales dollar which the research-oriented drug companies spend to discover and develop new products is by far the highest of any American industry.

Only one out of about 6,000 compounds tested by drug companies turns out to be a marketable product, and even then it can reach the market only after years of animal and clinical testing. In addition, a competitor's new or improved product for treatment of the same disease can appear at any moment to overshadow or make obsolete a profitable product perfected at great cost.

To illustrate, 16 drug products which were listed among the 200 most commonly prescribed products in 1965 had disappeared from the list when the 1966 annual audit of prescriptions filled in retail stores was completed. Three-quarters of those 16 products had been on the market 10 years or less. The same survey disclosed that 100 products dropped in frequency of prescribing rate between 1965 and 1966. Only 84 remained the same or rose in rank.

The struggle within the industry for success—the competition to be first with the new drug discovery—is costly and risky. Without the profit incentive it could not be continued. If it stops the public will be the loser.