this light that the pharmaceutical managers should look today at their policies and their operational procedures if they are to control their own futures.

Mr. GORDON. What do you mean by "within its own self-established limits"?

Mr. SQUIBB. Well, I think the industry sets forth for itself the areas in which it is properly concerned. It does not accept limits that are proposed from outside, critics or from the public, even generally as to what should be the proper limits of its responsibility. The industry decides what its responsibility is, and has carried out that responsbility very carefully and diligently. It is making its own internal judgments as to what are its own duties in this concept.

Let us take a look, just as to how the industry prices its products. Every product in the marketplace has a cost, a price and a value. Costs of products in all industries are difficult to determine precisely, not only because manufacturers are naturally reluctant to discuss them, but also because there is a real difference in opinion as to what they actually are within a given company's financial structure. Methods of accounting, allocation of overhead and variable production expenses, problems in separating out indirect distribution costs and applying them fairly to diverse items, all cloud over any effort to fix clearly just what the "cost" of a product is. This is often an even more irritating difficulty to the manufacturer than to the outside investigator, and many a firm has undergone real financial distress because it could not properly establish its product costs.

All this applies especially to the pharmaceutical industry. With their multiproduct lines of greatly dissimilar products requiring all sorts of different production leadtimes, storage and shipping variants, and sales promotion programs ranging from the simplest to the most complex technically of any that can be imagined, pharmaceutical companies find product cost determination a real problem even without the almost overwhelming difficulty of proper allocation of basic and specific research and development costs which are a substantial part of their annual operating expenses. However, it seems reasonably certain that costs of major volume products are a much smaller percentage of trade prices than is usual in consumer goods industries. This can be deduced from much published evidence of costs estimated and real, and the facts that price ranges are enormous, and profits better than average.

Senator HATFIELD. Mr. Squibb, could I interrupt? The sentence before last: "However, it seems reasonably certain that costs of major volume products are a much smaller percentage of trade prices than is usual in consumer goods industries."

I presume here other consumer goods industries. Could you give us a little further explanation of comparisons which you are drawing here?

Mr. SQUIBB. Well, what I am trying to compare here are the factory costs, the direct labor and the actual out-of-pocket costs to create a product for the pharmaceutical business, compared with consumer products, such as food products and packaged goods products that are distributed and bought in the general markets by the public. I think that we have a large mass of evidence that has been deduced and put