together from various directions, that the actual costs, of pharmaceutical products, are quite low compared to the price that is set. I do not have tables, and this evidence here. This is in the background. Much of this is in testimony already given to the committee.

Senator NELSON. Just for clarification, are you referring to the kind of testimony that appeared sometime ago in the Kefauver hearings, and I think once or twice here, in which efforts were made by the committee or by some witnesses to establish the cost of the basic product and then add reasonable markup? I think we had some testimony a while back that the cost of making 100 tablets of a particular drug was $1.80 or something like that including profit, and the tablet was selling for $16 or $18 a 100. Is that the kind of differential that you are talking about?

Mr. SQUIBB. That is the cost I am talking about, the basic cost of the package. I think we have seen also laid out before the committee at various times in the past weeks the other elements of expense that go into the final pricing of the product, and because profits, research, and selling expenses are larger in this industry percentagewise than in most other industries, it follows inevitably that the cost has to be smaller. I think this is a matter of general agreement by anyone who examines the subject objectively.

Mr. GORDON. Mr. Squibb, to corroborate your statement you may be interested to know that according to the 1961 Annual Survey of Manufacturers, U.S. Bureau of the Census, the wages as a percentage of value added for all manufacturing is 33.5 percent. For chemical and allied products it is 17 percent. For drugs it is 11.1 percent. That is labor cost.

With respect to materials cost, it is also pretty low for the drug industry; and with respect to investment data, fixed assets, as a percent of sales for all manufacturing is 28.5 percent, chemicals and allied products 37.6 percent, and drugs 25.6 percent. So the statistics of the Bureau of the Census certainly corroborate what you have said.

Mr. SQUIBB. I think this is a basic fact which actually determines much of what happens later on in setting the pricing structure for any product the fact that the cost is comparatively low.

Generally speaking and within a given industry, the price of a product has a predictable relationship to the cost, and in turn the value is close to the price, such being the nature of our competitive economic system. In the drug business, however, prices are unpredictable; often they seem to bear no normal relationship to cost. More often than not there are several widely divergent prices for the same product, the highest frequently in the largest market and the lowest in the smallest market. Indeed it is difficult to determine just what the price is on many important prescription drug products.

Senator NELSON. We have had considerable testimony, which I take it you have read, showing the difference between the high prices charged for drugs to the retail pharmacist, and the dramatically lower price that the same companies bid for the same drugs to the Defense Supply Agency or the Veterans' Administration or the city of New York or major hospitals. These differences amount to a couple thousand percent. There are cases where 100 tablets would sell on the retail market for $17 or $18, while the same company bids $1.20 to New