I think that they do tend to hang on because there are a few physicians who still want to use them and they want to keep those physician's goodwill. Eventually as these losers grow to a bigger part of the pharmaceutical companies list they are cut out and disappear. Once in a while there is a big washing out of losers.

Mr. GORDON. How great is this? What is its extent?

Mr. SQUIBB. Every year it is a continuing problem, but it cannot be great in terms of percentage of the total, because the loss is not great enough to damage your profit picture. Any company that lets its losers get above the 5-percent sales level is in certainly bad management trouble.

Senator NELSON. If there is no objection on the part of the witness, we will take a leisurely lunch and come back in 30 minutes.

Mr. SQUIBB. All right.

Senator NELSON. We may have some voting this afternoon. I would rather break now and start again in 30 minutes if you do not have any objection.

Mr. SQUIBB. None at all. Thank you, Senator.

(Whereupon, at 11:45 a.m., the hearing was recessed, to reconvene at 12:15 p.m., this day.)

AFTERNOON SESSION

Senator NELSON. The hearing of the subcommittee will resume.

Mr. Squibb, I believe you were on about page 11, is that correct?

STATEMENT OF GEORGE S. SQUIBB, FORMER VICE PRESIDENT, E. R. SQUIBB & SONS—Resumed

Mr. SQUIBB. I was going to pick up at the top of page 12, Senator.

Senator NELSON. Go ahead.

Mr. SQUIBB. As another necessary step to pricing policy reform—the price of the pharmaceutical product should become a function of its cost—a function approximately the magnitude of those in major consumer goods industries and varying only in terms of the sales burden imposed. Prices which are set at nine or 12 or 20 times factory cost only serve as incentives for public attack on the various means and methods that permit such action, patent protection, product monopoly, successful sales pressures, or whatever. Exploitation of the value factor of medicines used in life preserving and lifesaving situations, by setting prices far above the cost is what must be deliberately and conscientiously avoided, no matter what justification or economic temptation is felt by the manufacturer. For example, if a new drug will largely depopulate State mental institutions by permitting home care of the patients, all of the extraordinary economic gain from this product must be felt by the State, and none by the pharmaceutical company that supplies it. Ordinary profits, yes, but windfalls, no. This may come as a shocking idea to those who set the prices on major volume pharmaceutical products which are used for treatment of patients in tax-supported situations but it is an idea which must be accepted, or it will be imposed by regulation. As the scope of purchase of medicine by government widens, the idea has greater implication for an ever larger part of drug product distribution and sale.