fact, a good many doctors will say "Well, I will prescribe the higher-priced drug from the research company for my patient because they are entitled to have more money to do more research." It is difficult to find out how much is research and how much is not.

Mr. SQUIBB. That is a judgment somebody has to make in the accounting procedure.

Senator NELSON. We have not had very much good testimony about industry research except the assertion from the industry that they have spent tremendous amounts. Is there any tendency so far as your knowledge is concerned for the industry to inflate the figure as to the amount of money they spend on research, or to include in it, items that really are not genuinely cost or are not genuinely research?

Mr. SQUIBB. There is always the possibility, and this is generally the result of internal arguments between the two men involved. The transfer of funds from the sales program to the research budget by the sales manager versus the research director or from manufacturing or from quality control. I think there is always a tendency, when you are talking about research, to want to talk about doing a lot of research, so you want that figure to be high when you are talking to bodies such as this. You want to tell how many millions of dollars of research that you did. So you want to include anything that might conceivably be thought of as research.

I do not think that there is any inflation in terms of misrepresentation of research. I think you can judge yourself favorably or unfavorably and make the judgment decisions on a perfectly honest basis without anything subversive about it.

Senator NELSON. The Harvard Business School did a study called "A Note on the United States Drug Industry" and as to research the Harvard report said:

> In the drug industry research and development is interpreted somewhat broadly to include not only the search for new compounds with medicinal effects but also the costs of elaborate testing procedures designed to determine the safety and efficacy of the drug and elaborate quality control procedures designed to secure purity and uniformity in manufacture.

Is there any standard which companies use to determine what should be included as research and what should not be included as research?

Mr. SQUIBB. No, there is no standard, and I think there is a great deal of dispute among the various research personnel in the different companies as to what it should be. I know that some companies quoting another company's research will answer it by saying, "Oh, well, they throw a lot of things in there that we don't," but they do not really know this. This is an individual decision in each company, and reflects the philosophies of the management in charge at that moment, and might vary even from administration to administration. I do not think that this is a large enough factor, this judgment variant here, to really be a confusion or a misunderstanding in the job on research that the industry is doing. This is an internal matter of accounting procedures which would make it vary a little bit, but not really a great deal.

Mr. GORDON. Do you think that the wider use of the formulary system would have a tendency to increase the quality of research?

Mr. SQUIBB. Well, yes, to the extent that duplicative products exist. Inasmuch as only one of a kind of a product is all that you can put into a formulary, if you have a line that is entirely duplicative of some-