

Mr. GORDON. Well, this is important to what Dr. Cootner is saying, but let me go a little further then. He says he doesn't know. Let's accept that.

Now, the clause "without at the same time reducing the risk," it seems to me misses the whole point. The risks in drug marketing are largely derived from existing market institutions and if these are modified the risks will be reduced by the action of the same forces. If prices are lowered, say, by introducing vigorous price competition or by Government action and the spread between cost and price is reduced, then there will be less money spent on advertising and promotion. This will in turn reduce the risk of obsoleting certain drugs.

This particular point was discussed more fully by Prof. Henry Steele of the University of Houston in his presentation on February 14, 1964, before the Special Committee on Drug Costs and Prices of the Canadian House of Commons.

I ask, Mr. Chairman, that pages 2482 to 2484 of Professor Steele's brief be included in the record at this point.

Senator NELSON. They will be included in the record.

(Data referred to above follows:)

[Excerpts from Canadian House of Commons, first session, 27th Parliament, Special Committee on Drug Costs and Prices, Feb. 14, 1967, pp. 2482-2484]

(By Henry B. Steele, Associate Professor of Economics, University of Houston, Houston, Tex.)

Almost any drug will sell, if promoted intensely enough, at least for a while. Drug firms complain of the high rate of obsolescence of drugs, and argue that such risks justify high profit rates. The argument is not irrelevant under present circumstances, but the risks of obsolescence are not inherent but result from the way in which drugs are developed and promoted. High risks do not justify high profits in this instance because the risks and profits are both symptoms of the same disease: sales promotion rivalry substituting for price competition. The chief reason for the high turnover rate among drugs is, I suspect, to be explained along these lines: advertising alone can sell physicians on a drug, if intensive enough, but any number can play at the advertising game, especially when brand names can be used to obscure the relationship between or even the identical nature of nominally unique substances. The greater the accumulated experience with a given drug, however, the more likely it is that its untoward actions will become known. However, if the rate at which new products is introduced is as great as the rate at which publicity is given to the mischief caused by existing products, the sales of the new products will increase as that of the old products declines, so that the total cash flow need not suffer.¹

On the other hand, as any businessman knows, advertising rivalry can substitute—perhaps entirely—for genuine price competition. Price competition is a good servant to the consumer, but a harsh master to the producer. Hence sellers tend to avoid it as much as possible under normal circumstances, and it generally prevails only where it is forced upon them by the structure of the market: numerous small sellers, none dominant; no collusion; no barriers to entry of new firms or expansion of existing firms. Where sellers are fewer and larger; where barriers exist to entry by new firm; where legal devices exist to facilitate a community of interest in price and production policies—under these circumstances, the forces which compel producers to undertake active price competition will be so weakened that rival firms will attempt to maintain or enlarge their share of various product markets by raising costs instead of lowering prices.

Advertising is inherently less destabilizing an arrangement than price competition. Some segments of the market may be loyal to a given brand even in

¹ In the United States, brand-name sellers had to be compelled by law to give proper prominence to generic names in advertising. But brand-name sellers do have their uses for generic names. A firm, for example, may advertise by brand name, but issue warnings under the generic name only. Pfizer and Wyeth adopted this opaque tactic for a triacetyloleandomycin warning.