the absence of advertising; other segments can be induced to prescribe only by increasingly provocative sales appeals. In general, sales can be increased by increasing advertising coverage, attracting new buyers while retaining the old, and perhaps even reinforcing their allegiance to the product. In the case of price competition, however, even though there may be a substantial segment of the market which is not highly price-sensitive and would buy the product at relatively high prices, in order to attract additional and price-sensitive customers, the prices which all customers pay must be reduced. Under such conditions, the controlling considerations relate to the price sensitivity, or price elasticity, of the total market demand for the product, and the expected price elasticity of the net demand schedule which the prospective price-cutter estimates that he will face after all his rivals have consummated their reactions to his price reduction. Only if demand promises to be quite sensitive, or relatively elastic, in response to price reductions, will a particular rival feel justified in gambling on a price cut. Even so, one or two moderate price reductions will ordinarily be sufficient to traverse the region of sufficiently elastic demand and hence to exhaust the possibility of further consumer-benefitting price reductions by the rivals.

The major difference between the two strategies is therefore that price competition benefits consumers through lower prices and higher output, while it reduces the profit levels of producers to competitive rates—an outcome consistent with maximum efficiency of resource allocation in an economy. But rivalry in extravagant marketing campaigns raises costs and prices, benefits of advertising media at the expense of consumers, and possibly also at the expense of company profits, and keeps the total consumption of the products of the industry at relatively low levels. In fact, the effects on profits of the two strategies may be the same in the long run: initially high rates of return on investment serve as a stimulus to efforts to increase output and market share; price reductions will directly reduce profits to equilibrium competitive levels; increased advertising budgets, which are mutually offsetting in the same way as competitive price reductions, except that they do not reduce costs to consumers and increase quantities produced and consumed, may eventually reduce profits to no more than competitive levels. Hence, monopoly prices may not necessarily mean monopoly profits, but simply excessive sales promotion budgets. A monopolist does not always make monopoly profits—he does so only to the extent that he is efficient, and one of the great attractions of monopoly is that it reduces or largely eliminates the penalties which a competitive market imposes on inefficiency.

It should be noted in passing that while price competition benefits consumers and while advertising rivalry may benefit no one except to the extent that it attracts more resources into the advertising industry, it is not suggested that monopolistic rivals are motivated by the desire of private gain at the public expense, while competitive producers are motivated solely to serve society. The producers' motivations do not differ. Competition is always a competition in the hope of establishing a monopoly, but where the structure of the industry rules out the possibility of monopoly, the ambitions of competitors must fail of fulfillment. The task of public policy is to adapt market structures in such a way as to preserve the vigor of competition while securing the public against the dangers of monopoly power on the part of the too-successful competitor.

Mr. GORDON. Let me just read a few sentences from Dr. Steele's statement.

He says:

Drug firms complain of the high rate of obsolescence of drugs and argue such risks justify high profit rates. The argument is not relevant under present circumstances because 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.

Do you want to comment on that?

Dr. COOTNER. Well, first of all, if I can call your attention back again to the sentence which we are discussing, my statement referred specifically to a risky competitive industry.