an exorbitant price at home and a competitive price abroad, that would not be so.

Senator NELSON. That does not really explain how they will sell cheaper in Geneva, Paris, Bonn, and Rome, and then turn around and charge three times as much in Mexico City.

Mr. CUTLER. But they have about the same rate of return on their foreign business as on their domestic business.

Senator NELSON. That does not explain what Mr. Conzen could not explain that day. I think the fact is that there was competition there and none in Mexico City.

Dr. WHITNEY. You expect competition when a drug is patented in this country?

Senator NELSON. I am not talking about that at all.

Dr. WHITNEY. Oh, you are not. All right.

Senator NELSON. I am just saying I think the American public ought to know that companies who manufacture drugs here can sell them overseas at a third of the price they sell at to American people.

Dr. WHITNEY. But if the American public then reacts by demanding that the price be cut by two-thirds here, that will almost destroy this extremely valuable industry.

Senator NELSON. Well, go ahead.

Dr. WHITNEY. We are talking about generic drug prices. I will skip a bit.

At the bottom of page 6, I say we do not have published reports on how much generic firms are making. I say I am willing to assume that the risk-taking companies earn higher profits than the limited-service firms and will do so as long as, though no longer than, their research is productive. One reason I am willing to say it is that it is the very function of profit that my paper is about.

What does it mean, after all, to say that a price is "too high"? Consumers make this complaint when they are paying for necessities—milk at 30 cents a quart, meat at a dollar a pound, or prescriptions at $4 or $5. But millions of television sets are bought at $200 or so and cars at 10 or 15 times as much. Buyers must think these prices are "reasonable" if the product is worth more to them than some other use of their money, whether for a substitute, an unrelated article, or an addition to saving. If a $5 prescription, or 6 of them, will keep a patient from losing a couple of days' pay or spending a night in a hospital, the price is reasonable. It does not cease to be so because those whose venture capital developed the drug keep for dividends and reinvestment a 20th of the retail price, which is about average, or a 10th, or whatever is necessary to bring this drug or a later and better one into existence. Nor does a theatre ticket, costing what a prescription would or sometimes more, become unreasonable if, instead of giving one a seat at a profitless "flop," it is for a "hit" whose backers are doubling their money in a couple of years.

Mr. GROSSMAN. Dr. Whitney, may I stop you there?

Dr. WHITNEY. Certainly.

Mr. GROSSMAN. I want to read the sentence over again:

> If a $5 prescription, or 6 of them, will keep a patient from losing a couple of days' pay or spending a night in a hospital, the price is reasonable.

What is the basis for your economic thinking here?