

market. We are talking about somebody who goes out and is told by his doctor to buy a certain drug and he buys it.

Mr. CUTLER. Every one of these drugs competes with other drugs, different patented drugs, other generic varieties of the same drug in many cases. There is no drug that has a total monopoly on the market. Everything is competing with a variety of other drugs or, as Dr. Whitney said, with foregoing the use of any drug at all. There are controls on prices created by competition. We are all in favor of having as much competition in this industry as we can.

Mr. GROSSMAN. I want to ask you one last question. Does the economic theory that you have been talking about justify the price differentials between what the companies are charging to the hospitals and what the companies are charging to the retail druggists?

I am not talking about foreign sales. I want to know how you, as an economist, can explain that and whether perhaps we should do something about the way the Robinson-Patman Act applies to these companies.

Dr. WHITNEY. The Robinson-Patman Act, as I understand it, does not apply to them.

Mr. GROSSMAN. That is right. Do you think it should?

Dr. WHITNEY. I do not know whether the price you are suggesting should be higher, if that is your implication; that is what would happen.

Mr. GROSSMAN. The prices would come up?

Dr. WHITNEY. I assume they would have to come up.

Mr. GROSSMAN. Do you think the companies are making profits on their sales to hospitals?

Dr. WHITNEY. I think they must be making some. I assume they are covering just the bare incremental costs, selling at such low figures.

Mr. GROSSMAN. But you think they are making a profit, then?

Dr. WHITNEY. They may be making a small profit covering their out-of-pocket costs, and perhaps a little contribution to overhead and profit. I would not know that. But beyond making their average profit, I would not know that. But beyond making their average profit, if they sold to pharmacies at the prices they sell to hospitals, they would all be out of business. You recognize that, do you not?

Mr. GROSSMAN. Can you justify the difference in prices?

Mr. CUTLER. Would you explain what you mean by justification?

Mr. GROSSMAN. Let us talk about buyer. The buyer must think these prices are reasonable—that is what you said. I go to a hospital as an outpatient and I get something for \$2. I go to a druggist and I pay \$17. Do I think that that is reasonable?

Mr. CUTLER. The hospital charges you \$1 for an aspirin; they pay a lot less.

Mr. GROSSMAN. Using the example that I gave, do you think that that is reasonable? In other words, am I to interpret it—you say the buyer. You are the buyer and I am the buyer. Would I think I have gotten a good deal if I went to the retail druggist and paid \$17?

Mr. CUTLER. Let us come to this again, if we can, because I think you are asking more a legal question than an economic question. If by "reasonable" or "justifiable," you mean does it meet the Robinson-Patman standard of differences in the cost of supplying one customer