is several times that of other industries in relation to sales,[11] and when drugs become obsolete so fast that over half the 1966 prescriptions were written for drugs not known in 1956, there is plainly a high built-in risk factor. Any search for the new is more hazardous than production of the old.

According to economic theory, a short to medium term higher than average profit is understandable, but entry of new capital will eventually bring it to a long-term level which is commensurate with risk. In this industry, capital has entered. Rising consumer demand, stimulated by the industry whenever it develops a new and effective drug, and the inherent risks of research which have prevented even more money from entering, are sustaining its earnings. Twenty years are too few, in many cases, to deduce absence of risk from continuing profits: look at what happened to the railroads or, for that matter, meat packing, sugar and textiles.

2. Prices of certain drugs of one manufacturer may be higher than those of another producer which are at least theoretically chemically equivalent. Prices could hardly be the same when one company must cover the costs, and be rewarded for taking the risks, of research, testing, quality control, and original distribution, and when it makes all dosage forms available where and when needed; whereas the maker of the other drug may only manufacture, and then probably only the most profitable form. Do the lower prices charged by generic-name manufacturers reflect these lower risks and costs, or are the industry critics right in implying that they reflect willingness to operate on lower profit margins? Until a representative sample of such firms publishes its rate of return on sales or investment we shall not know the answer.[12] In the meantime, I am quite 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.

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 twentieth of the retail price which is more average, or a tenth, 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.

3. Although a case can be made for various special provisions for low income persons with heavy outlays on drugs, no case can be made for helping them by reducing the prices to every one. Milk is not sold at a cut price to all so that low income groups can afford more of this healthy food.

How many dollars and cents would be saved by consumers if the industry's earnings could be brought down to average without damaging production incentives? I have seen nothing specific on this from industry critics—certainly nothing in the majority report of Senator Kefauver's Subcommittee which demanded drug price reductions in 1961.[13] You have heard of large economies made by hospitals through purchases of drugs by generic name. Were all purchasers to do the same, many research-based companies would be put into serious straits.

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[11] In 1966, PMA surveys show 10.9 percent of the domestic pharmaceutical sales dollar of research oriented firms was allocated to the research, discovery and development of pharmaceuticals and biologicals. The National Science Foundation shows total industry R. & D. privately financed, as only 2.0 percent of sales. *Ibid.*, p. 69.

[12] The 39 drug companies in the First National City Bank sample earned $711 million in 1966 on $3,377 million net worth (again, these are overall company figures, applying to all products), or 21.0 percent. The FTC–SEC sample, including these and perhaps as many small firms, earned $787 million on $3,547 million, or 22.2 percent. The difference, $76 million on $170 million, is 44.7 percent. Surely the small firms were not so profitable—but, without knowing the make-up of the samples or carefully comparing the reporting forms, we can make no affirmation.

[13] *Administered Prices: Drugs*, Report of the Committee on the Judiciary, United States Senate, Made by Its Subcommittee on Antitrust and Monopoly. Pursuant to S. Res. 52, 87th Cong., 1st Sess., Report No. 448.