Let us look at profit figures for 1966. The FTC–SEC reports earnings before income taxes on stockholders' equity for all manufacturing as 61 percent of those for drugs. The drug profit margin—also before taxes but on sales, not equity—was 19.7 cents per dollar. Sixty-one percent of this would mean a return on equity equal to that of all manufacturing, but the price would be brought down only 7.7 of the 19.7 cents. Now drug manufacturers received perhaps $1.4 billion of the $3.05 billion in prescriptions dispensed by community pharmacies.[14] Reducing this $1.4 billion by the 7.7 percent would bring revenues down $108 million. This is 10.8 cents in $3.05, or 12.4 cents in a typical $3.50 prescription. Some critics lightly assume that the pharmacist will reduce his selling price by the same percentage that his acquisition cost falls. Certainly under the professional fee system this does not happen.

This is not all. First, some one will have to make up the corporate income tax payments lost as a result of declining profits of drug manufacturers. At present tax rates, the 12.4 cents the public is supposedly "saving" will be reduced by 5.1 cents. Second, someone will have to replace the money now being reinvested by the industry out of its earnings, unless its expansion is to cease. At 1966 ratios, the 7.3 cents remaining drop to 4 cents—that is, a 4 cent reduction in a $3.50 prescription.

All right, one might say, why not save the 1 cent, or the 4 cents, or whatever it is? Certainly, if it costs nothing—but is it a good gamble to imperil industry incentives for so little?

The critics seize on selected examples of drugs with the greatest price differentials. But, no economist and perhaps no accountant thinks that every product sold by a firm, whether department store or manufacturer, should carry the same profit margin. Instead of prices for each product which meet the market, such a system would create a jungle of prices reflecting the costs of each company—if indeed costs could be determined.

Certain trends are alarming. New chemical entities marketed per $100 million of R. & D. expenditures, for 1959 through 1966, were 32, 22, 21, 11, 6, 6, 7, and 3, respectively.[15] They may rise again to 6 or 8 as the industry catches up with the new requirements of the Food and Drug Administration, but more than 6 or 8 are needed. There may be no real recovery if the profits from research are threatened.

We all know how fast medical care costs are rising; but prescription drugs were only 9.8 percent of total medical care expenditures in 1966, down from 11.7 percent in 1957.[16] In fact, drugs through their therapeutic effects have been alleviating the impact of other costs which are rising rapidly.

The American economy leads the world. So does the American drug industry, as recognized by foreign medical authorities and as registered very practically in an annual 12 percent increase of foreign sales.[17] It was not the leader until its profit opportunities became evident after World War II. The same economic principles account for the success of both the economy and the industry.

As new and better drugs are discovered through profit-seeking research, competitive pressures are inevitably brought against existing drugs. None of us wants to disturb this process. More important than the price of existing drugs, many of them declining or gradually disappearing, is the health of the future, and this will depend on the new drugs that may be, indeed must be, found.

(The charts referred to by Senator Nelson follow:)

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[14] The $1.4 billion is 46 percent of the $3.05 billion pharmacy ethical drug sales, as estimated by the U.S. Department of Commerce.

[15] Derived from the de Haen surveys of new chemical entities introduced and the PMA estimates of drug R. & D. expenditures.

[16] Derived from Department of Commerce estimates of consumer expenditures for medical care and PMA estimates of expenditures for ethical drugs.

[17] PMA data. The average annual gain from 1960 to 1966 was 12.4 percent.