This pattern of persistently high profits indicates that large drug companies occupy a unique position in the American economy. And they appear to have become increasingly unique since the mid-1950's.

Before turning to an analysis of the Conrad-Plotkin-Markham-Cootner explanation of high profits in the drug industry, I shall briefly review what appears to be a virtual consensus of opinion among researchers in the field of industrial organization concerning the causes of high profits of drug manufacturers.

In this connection I would like to emphasize the crucial role which congressional hearings have played in developing the facts necessary for scholars to study the organization and performance of the drug industry. Prior to the Kefauver drug hearings on administered prices in 1959–61, not a single article concerning the American pharmaceutical industry had appeared in a professional economic journal.

Senator NELSON. Are you referring to any article of any kind or just articles in economic publications?

Dr. MUELLER. I am referring to articles on the structure and organization of the drug industry. This observation is based on the recent study that I cited in a footnote by Professor Walker of the University of Indiana, who surveyed the literature.[1]

Since the first such article appeared in 1962, there has been a growing volume of research literature on the subject, all of which has drawn heavily on the Kefauver and subsequent congressional hearings. The facts developed by this committee have made another enormous contribution to the fund of knowledge concerning the drug industry. I am confident that scholars will be sifting and winnowing the facts for years.

The preponderance of economic evidence argues that the persistently high profits of the drug industry are the result of the absence of effective price competition in the sale of many products. Price competition in drugs is ineffective for several reasons. Concentration in the production of many drugs is high because of the patent privilege. And even where there are relatively many sellers, as well as many potential sellers—for example, in the case of unpatented drugs sold under generic names—effective price competition often is muted by vast advertising, promotion, and other selling efforts which differentiates in the minds of consumers the products of the largest drug manufacturers selling under their own brand or trade names from those of other manufacturers. Hence, manufacturers selling chemically identical drugs under generic names frequently have difficulty in selling them at any price.

Senator NELSON. Are you referring to the retail market particularly in this instance?

Dr. MUELLER. That is correct; the sales of druggists in the prescription market.

Senator NELSON. We do find from the testimony, as I am sure you have noted, that generic companies or generic drugs are competing effectively in bids to nonprofit institutions and to the Federal Government, and you will also find testimony that brand name drugs drop substantially in their price when they bid in this competitive area.

[1] The complete prepared statement submitted by Dr. Mueller begins at p. 1824, infra.