Senator NELSON. May I interrupt, just for clarification of a point? You state that the hospitals and institutions whenever possible buy generic drugs rather than brand names in order to reduce cost. Isn't it the actual situation that hospitals and the Government use the formulary system when they purchase drugs. They take bids on a generic basis, and then the contracts are made with companies that produce only generic drugs and companies that produce both brand names and generics. Brand name companies bid their brand, but here is where you find the example about the effect of competition on prices: They may very frequently win; they may very frequently underbid the generic company in the institutional field, that is, Government and hospitals, and therefore the trade name drug may very frequently be used. But here is where you see the contrast between the price that is charged by the brand named company in the competitive field versus the price they charged in the retail field. In the retail market they can hold their market price against a lower priced generic drug, but they can't hold it against a generic drug in a Government purchase unless they substantially reduce the price when they bid. Is that a correct statement?

Dr. MUELLER. That is correct. I think investment analysts view the end effect of this process.

This observation, of course, is concerned with how medicare might affect competition because of the increasing use of generic drugs; it is not explaining profits associated with risks.

In sum, there is no reason to conclude, on the basis of advice being given investors by investment analysts, that the drug industry is a uniquely risky industry. On the contrary, the generally glowing reports of investment analysts suggest that large drug companies should have little difficulty obtaining adequate capital should they choose to go into the market for it. Actually, however, their profits are so large that drug companies seldom need go to the capital market for equity capital. And there is no reason to expect that drug companies would have difficulty getting adequate capital even if they enjoyed profit rates comparable to most other American industries.

But perhaps this is a too prosaic approach to the problem. Let us, therefore, turn to the Conrad-Plotkin-Markham-Cootner "econometric" explanation of high profits in the drug industry.

My comments today concerning the Conrad-Plotkin analysis will be limited to an evaluation of the testimony presented to this committee last month. Arthur D. Little, Inc. has promised to provide us with the underlying data used in their analysis.

Mr. GROSSMAN. Dr. Mueller, before you go on: At what point do you think investors would not invest? How low do we have to go in market percentages before we lose the investors?

Dr. MUELLER. In the drug industry?

Mr. GROSSMAN. Yes.

Dr. MUELLER. I am not sure just where that level is. There are companies that have had fairly low earning experiences that have been able to obtain capital funds.

I think you will recall Dr. Whitney's statement that in the early 1950's drug companies were investing at a greater rate than other companies, by a 3-to-1 ratio, or something like that. Actually, at that