First of all, how new is this, really?

Is this really new?

Dr. MUELLER. The econometric approach which they used?

Well, actually, all econometrics involves the application of mathematical and statistical techniques in testing economic relationships. Economists have been doing this for many years. The chief advantage of this technique today is that it permits us to analyze vast volumes of data with modern electronic computers in a short period of time, test many relationships. Actually, the Arthur D. Little study is a very simple one. It involves a study of only two relationships, the so-called risk factor and profits. It does not introduce any other variables such as market structure or competitive variables, as have some other studies of risk.

These techniques have been used long before I was born; they came into prominence in the twenties as simple and multiple regression techniques. So they are not anything new or novel. The whole point of it is that you can't take, as Professor Boulding pointed out—you can't take data that are very crude and send them through a machine and come out with something that is better than the input. In addition, you have to know what it is you are putting in.

So, simply using a sophisticated technique does not give you any good new answers to difficult questions unless you have a good conceptual framework and you have good data.

And, as we point out, when you really understand what Conrad and Plotkin are measuring, their data show nothing at all in the so-called producer goods industries; there is no significant statistical relationship present. And, as a result, when we test their theory with, in effect, better data than they used, we find no relationship. That is what the scientific method is all about. As Cootner explained in his opening statement, he had hoped this is the way science operated, the testing of alternative hypotheses, and so on. And this is what we have tried to do in our analysis, really test what it was they thought they had come up with.

Mr. GROSSMAN. Dr. Mueller, two questions:

First of all, I would like to ask you just as an economist to comment on one of the statements that Dr. Whitney made at our last meeting. He said:

"If a $5 prescription, or six of them, will keep a patient from losing a couple of days' pay or spending a night in the hospital, the price is reasonable."

What do you think of this "market-will-bear" type of philosophy?

Dr. MUELLER. It, in effect, permits a rationalization of anything that you see. It is like saying: "We would all be willing to pay more for our newspapers." Certainly we buy the Star, the Post, and the New York Times, and we pay only 10 or 15 cents for these fine newspapers. We would be willing, however, to pay more; but competition pushes the price down; and, as a result we get more than our moneys' worth. The economist refers to this as a consumer surplus. So, merely because there is a great value received, a greater value received than someone would be willing to pay, does not prove anything in terms of the effectiveness of our market system, our competitive system.

Senator NELSON. As I understand that testimony given a few weeks ago, what the economist was really saying was that if you are scuba