This is an illogical theme, however, since profits exist only after all costs, including research, have been covered. A firm that breaks even, or earns only a normal profit, is financing its research just as fully and capably as is the firm earning profits far above normal.

As that argument folds, the industry turns to the "growth industry" argument—that is, that the drug industry is a so-called growth industry and that high profits are needed to finance that growth. In response to that theme I contend that reinvesting your earnings instead of taking them as dividends is one thing; but exacting from consumers a double profit and more, to sustain and even increase dividends, on the one hand, and simultaneously to finance capital expansion and stockholders' equity on the other hand, is uneconomic, unjustifiable exploitation. The consumer who purchases his prescription is thus paying in that price for these things—for activities necessary to bring that product to him; for activities that provided no benefit to him and hence were unnecessary; an attractive dividend to the stockholders, and some part of a new machine, a new plant, a piece of property that will belong to the stockholder. The dramatic expansion of the industry in the past 15 to 20 years has been almost entirely, if not totally, financed out of profits—yet the industry throughout this period has maintained a payout rate, dividends per invested dollar or per share of stock, that compares favorably with other industries. That, to me, is something like having your cake, eating it, and seeing it grow bigger all at the same time.

Thus the market performance of the ethical drug industry, measured against the criterion that "prices paid by consumers reasonably reflect the costs of efficiently providing useful activities" is seriously deficient. The prices paid by most consumers of drug products are excessive for two major reasons—they are inflated by wasteful cost elements, and they are further inflated by the excessive profits they provide.

The question that now arises is this: What features of drug markets render consumers so exploitable?

First, there is the peculiar importance of the product, more so than almost any other commodity; then there is the "prescription relationship," in which someone other than the consumer actually decides what will be bought—someone who may be unaware of the availability of alternative products, unaware of their relative prices, or indoctrinated in the practices of prescribing high-priced trade name specialties.

Second, given this vulnerability of consumers, to exploitation, is monopolization—the basis of the power to exploit the consumer. This monopolization is both result and cause of the wasteful competition in development and especially in advertising, and is a prime determinant of excessive profits, all of which the consumer bears. The large drug firms, as I have indicated, strive to create monopoly through patents and trade names. But what is it that permits them to succeed so impressively in that endeavor?

To answer that question we must distinguish two separate facets of the industry's operation—on the one hand there is the development and manufacture of drugs, i.e., the active chemical substances that go into pharmaceutical preparations. On the other hand there is the