

The major similarity between drugs and other industries is that the firms are privately owned and are managed in the interests of maximizing profits and the value of the shareholder's investment.

Provided that there is effective competition among firms, the profit-maximization goal is an excellent coordinating mechanism since it motivates managements to produce a given output at minimum total cost and hence stimulates efficiency.

At the same time, price competition among firms will keep price levels from exceeding for any great period of time the equilibrium levels necessary to elicit from producers that level of production which consumers demand at that price. This is basic to the classical economic doctrine of Adam Smith (who was mentioned more than once with approval by PMA witnesses last month) that the force of price competition taking effect through the market, acts as the famous "invisible hand" which by allocating resources efficiently makes each economic agent serve the general welfare even though he is only interested in furthering his own private fortunes.

But unless effective competition prevails, private and public welfare in the market are not consonant. In the drug industry, the invisible hand is invisible chiefly because it is so deeply buried in the consumer's pocket. And it is the extreme vulnerability of the drug buyer to economic exploitation which makes the drug industry (both in economic and public policy terms) a unique market which cannot be compared directly with any other. This peculiar vulnerability of the drug buyer to exploitation is related to several major characteristics of the drug market which prevent price competition from acting as a safeguard and which also tends to make an economically unregulated drug industry productive of much misallocation of resources in its attempt to maximize the profits of the individual firms.

I do not intend to advocate punitive regulation of the drug industry. But the industry at present enjoys the benefits of what amounts to public regulation in its favor, through the availability of the patent privilege, trademark and copyright protection, and the laws supporting prescribing by brand name, to name only the major advantages. This stacks the cards heavily in favor of the industry and against the drug buyer. I am in favor of corrective legislation to redress the balance and increase the chances of the patient's getting fair value for his prescription dollar.

At the same time, it must be stressed that to be critical of the drug industry is by no means to be critical of private enterprise as such. Most industries are routinely accorded exemption from special economic regulation because they naturally tend to function tolerably competitively in a free market environment.

But if the drug industry is permitted to retain its present special position of institutionalized protection in the economy, it will continue to display elements of both monopoly and rivalry. Spokesmen for the industry habitually refer to the intense degree of competition among firms. Unfortunately, however, the "competition" referred to is of the type which raises costs instead of reducing prices. This category of activity is generally referred to by economists as "rivalry" rather than "competition" since the latter term is usually reserved for the economically beneficial activity specifically of price competition. Ob-