viously, the industry which is subject to intense price competition at all times is the exception rather than the rule in today's economy.

Nevertheless, the perennial threat, and occasional outbreak, of price competition does much to keep the price policies of the typical industry on the side of moderation. My research and consulting experience in the field of industrial organization during the last 10 or 12 years has been such as to convince me that the great majority of product markets in the United States are more or less workably competitive, but the specific legal and marketing arrangements which the drug industry enjoys are such as to make it virtually a foreign body in an otherwise workably competitive economy.

Then if I may I would like to turn to my supplemental statement, which focuses on the presentations of the PMA witnesses last month.

Senator NELSON. We will print in full the statement that you just read from in the record at this point and we will then start your supplementary statement.

Dr. STEELE. Thank you.

(The complete prepared statement of Dr. Steele follows:)

STATEMENT OF HENRY B. STEELE, PH. D., ASSOCIATE PROFESSOR OF ECONOMICS, UNIVERSITY OF HOUSTON

I greatly appreciate the privilege of being invited to make this statement before this subcommittee, and it is my hope that the information which I am able to present will be of some use to you in your deliberations regarding the vitally important economic problems arising out of the market context within which the drug industry operates.

I am an academic economist with major research interests in industrial organization and the regulation of industry, and have done much work in the area of medical economics and drug industry regulation. I received my Ph. D. degree in industrial economics from MIT in 1957, and since then have been engaged in teaching and research, as well as in consulting for private firms, United States government agencies, and foreign governments. At present I am an associate professor of economics at the University of Houston. My research in the drug industry has continued over the last seven years, and I have written three articles on drug industry economics and regulation and two articles on the supply and distribution of physicians' services, all of which have appeared in professional economics journals. In March 1965 I presented a paper on drug industry regulation before the University of Illinois Medical School at the invitation of Dr. Harry Dowling, then chairman of the Council of Drugs of the American Medical Association, and in February 1967, I presented a comprehensive program for the reform of Canadian drug laws and regulations before the Special Committee on Drug Costs and Prices of the Canadian House of Commons. In making the Canadian presentation. I represented the government of the Province of Alberta, and of the fourteen recommendations which I submitted, eleven were incorporated in the Final Report of the Committee to the Canadian House of Commons. All of my research of the drug industry in the United States has been entirely self-financed, and in presenting this statement to the Subcommittee on Monopoly, I wish to make it clear that I represent no one but myself.

I. INTRODUCTION

What can an economist contribute to hearings on drug industry problems? It is curious that in all the hearings held in the United States, as well as those in England and in Canada, the original demand for the hearings has come about because of the conviction that prices are "too high", but very much of the hearings have been occupied by investigations into the safety and efficacy of drugs, and medical and pharmacological considerations have quite generally been predominant over economic issues. Yet, for every person who is moved to voice a complaint over poor drug quality, there must be a hundred who