

to the members of a well-paid profession, but this may still be the least costly way of insuring at least the availability to all doctors of adequate and unbiased drug information. And while an element of subsidy to the doctor would remain, the subsidy would now be financed by the public as a whole, rather than that smaller and to some extent disadvantaged segment of it which in a given period of time finds it necessary to purchase drugs in varying amounts.

If adequate drug information were to be made available from unbiased sources, by how much might drug industry sales promotion costs decline? Unless steps were also taken to institute price competition in drugs, expenditures would probably not drop at all, and might even increase, each firm trying not only to offset advertising efforts of other firms, but also the now more widely-distributed data from unbiased sources. To explain why this outcome is likely, the crucial role of sales promotion in the drug industry must be further explored at this point.

The key role of sales promotion lies in its ability to substitute for productive research on the one hand, and for genuine price competition on the other. If a firm's research department discovers a highly effective new drug of unmistakable value, the drug tends to advertise itself. Physicians themselves rapidly spread the news. On the other hand, as Dr. Walter Modell of Cornell University Medical School has stated, "The more a drug has to be peddled, the more one begins to wonder why."²² Dr. Console, formerly of Squibb, was more explicit—about the relationship between unproductive research and the advertising budget: "Advertising is called upon to make successes of research failures."²³ Since it appears that almost any drug will sell, at least for a while, if promoted intensely enough, it does appear that the good offices of the sales promotion department may compensate greatly for the indifferent fortunes of the researchers—but at quite a cost, in terms of premature and usually unnecessary obsolescence of existing products. Even these costs, however, are converted by drug spokesmen into rhetorical capital: they are construed as measuring the risks of product obsolescence, allegedly due to the rapid development of superior medications, and these "risks" are supposed to constitute a justification for the high profit rates characteristic of the industry. The "risks" involved are not wholly illusory, but are not, as claimed, inherent in the research process. Instead, they arise from the way in which drugs are developed and promoted. The high profits cannot be justified by the high risks because the height of the profits induces expensive and disruptive product competition which manifests itself in such "risks". But if one were to create price competition and reduce profits, this mode of product competition would be too expensive to support, and the "risks" of product obsolescence would be diminished in proportion to the decline in profits.

Even more important is the degree to which sales promotion can substitute for price competition. This is true in most industries, but drugs are unique in that such efforts can almost completely suppress price competition and furthermore can seriously discredit the price competitor. Again, the sheltered institutional circumstances of drug marketing should take the credit. If a company can monopolize the eye and ear of the prescribing physician, it monopolizes the most important drug market, given the existence of laws supporting brand-name prescribing. But monopolizing the physician's attention becomes increasingly expensive when more than one firm tries this strategy. It soon becomes so expensive that only a limited number of firms have the resources to continue—hence, as mentioned before, economies of large scale marketing act as barriers to entry where production costs in themselves would not be prohibitive. Smaller firms cannot ordinarily bring their products to the attention of the physician, even though they may be selling at perhaps 90% less than the brand name drugs.

And there is yet another way in which the sales promotion techniques of the industry put the small firm at a prohibitive disadvantage. Although the small low-price firm cannot ordinarily make its presence in the market directly known to the physician, the doctor may eventually become aware of its existence and perhaps wonder how the midget firm can undersell the giant by a ten-to-one ratio. The detailman is ready to supply the answers. It appears likely, on the basis of the testimony of many doctors at public hearings, that a major reason

²² Drug Industry Antitrust Act Hearings, Part I, p. 325.

²³ Hearings on Administered Prices, *op. cit.*, part 18, p. 10372.