itate uniformity of action on prices should exist. Prescriptions should be written so as to facilitate the ability of drug buyers to stimulate price competition among pharmacists. There should be no barriers to the dissemination among buyers of information on the prescription drug prices of individual pharmacies. Buyers should be free to seek out the lowest-price seller, both for the original dispensing of a prescription and for refills. Entry into the retailing of drugs should be free from any artificial barriers, legal or otherwise.

Under present market arrangements, there is no real incentive for the druggist to stock low-priced generic drugs. First, there is little demand for them, physicians' prescribing habits having been influenced as they have by industry efforts. Second, if the usual two-third markup is added to invoice cost, the unit profit to the pharmacist is proportionately smaller for the lower priced drug. Third, the same logic applies to the wholesaler, so that even if a druggist wishes to stock generic drugs, he may find it hard to obtain them.

It is obvious that the substitution of the "professional fee" approach in the place of the uniform percentage markup would make the dispensing of generic drugs relatively more attractive to druggists. But the application of compensatorily higher percentage markups to the lower-invoice-cost drugs would accomplish the same purpose. Optimal economic efficiency in the dispensing of drugs would require that relative markups on individual items be determined by price competition among sellers. The markup should be at the minimum rate above cost which is consistent with the retailer's cost of distribution, including a competitively-determined rate of return on an appropriate level of investment. If genuine competition exists, the *method* by which the markup is arrived at will be less important than the *amount* of the markup, since competition will require that this amount be substantially equal among competing sellers. The notion of adopting a uniform professional fee for any and all prescriptions has drawbacks. It lacks the necessary flexibility in the pricing of services which must exist if price competition is to prevail. And the level of the fee is very important. While I doubt if the size of the fee will be set at too low a level, setting it too high will not insure druggist prosperity. Instead, the high unit profit margin on each prescription will induce new entry into the industry. Many pharmacists now among the ranks of the detailmen will be encouraged to return to pharmacy. As the number of sellers increases, average turnover declines to the point where a balance is achieved between high unit profits and low turnover, and further entry is finally discouraged because of low total profits. In comparing this situation with the low prices and high turnover which would prevail under price competition, it is apparent that competition is to be preferred since prices are lower and excess capacity and investment in underutilized resources is minimized, while the profits on investment should be about the same in either case.

A few words should be devoted to contrasting druggist retailing of drugs with other drug dispensing media. One can readily understand the unhappiness of retail druggists who pay the full dealer list price when they read about the much lower prices obtained by hospitals and government agencies in response to competitive bids. Drug firms have tried to account for such price differences by references to economies of large scale selling, and to promotionally low prices for the sake of introducing their products to hospital physicians. But the price differences are clearly too great to be accounted for merely as the equivalent of quantity discounts. And the "promotionally low prices" argument can be dismissed as a rationalization since it is not characteristic of major drug firms to be so negligent of sales promotion possibilities that the doctor would be likely to overlook a drug if he did not have it on hand in a hospital. The basic reason for the price differences is simply the fact that price competition can often be kindled between brand and generic name drugs and even among major producers of brand name drugs by means of the competitive bid approach. It has been contended that sales to druggists at high prices "subsidize" the lower price sales to hospitals and public agencies. If this is construed to imply that the latter sales are actually made at a loss, it is no doubt an error. From all evidences, drug production costs are very low. And a firm can always add to its total profits by selling goods at special low prices, provided these prices are above the out-of-pocket costs incurred on the sale, and further provided that these transactions do not affect the prices received on other sales. To the extent that firms have excess capacity, they will be more intensely motivated thus to increase their rate of output and spread the overhead costs of total productive