The possibility remains, however, that drug manufacturers' prices might be reduced by competition and yet these reductions might not be passed on very efficiently by retailers. To increase the likelihood of competitive performance on the part of druggists, the appropriate levels of government should review the requirements for entry into drug retailing and compare them with the requirements for satisfactory performance of drug merchandising services under current conditions. Clearly, the pharmacist's function has changed from that of actively compounding prescriptions to those of passive merchandising; many of his skills have become obsolete as the result of the revolution in the drug industry. Those interested in drug industry reform should join in urging the maximum practicable liberalization of the traditional restrictions limiting entry into drug retailing. This liberalization should be such as to constitute recognition that the traditional pharmacists' distinctive functions are being altered away from professional competence in compounding and toward skillfulness in merchandising. Such recognition would be likely to stimulate new entry by those not traditionally opposed to price competition. In many lines of retail trade, dealers were inertia-bound and distribution methods unprogressive until price competition developed from such sources as chain stores, supermarkets, and mail order houses.

In my own state of Texas, where we have never been burdened by resale price maintenance laws, discount pharmacies and the drug departments of large discount houses are doing a thriving business, and have not only given the price-conscious drug buyer an alternative source of supply of both brand and generic drugs, but have exerted downward pressure on the margins of traditional druggists. Similar competition is rendered much more difficult in those states in which fair trade laws are enforceable, but one of the advantages which drug nomenclature reform should possess is in eliminating trademark names for drugs and thus making them ineligible for the protection against price competition which the fair-trade laws now allow. Some modifications of the other laws limiting price competition, such as certain provisions of the Robinson-Patman Act, should be also accomplished so as to allow druggists at least the possibility of soliciting competitive bids from suppliers.

All of these reforms represent movements in the direction of creating a market framework within which a freely competitive privately-owned industry can efficiently operate. If these reforms do not prove sufficient to bring about the desired result, two further measures would then become relevant. First, the patent privilege for drugs might be further modified by allowing the importation of patented drugs from abroad if the dealer could more cheaply purchase them abroad than produce them domestically. This would fall short of patent abolition in the sense that the U.S. patent holder would still be able to collect a reasonable *ad valorem* royalty on sales by the importer. (Naturally, the quality of the imported drugs would have to be acceptable, and the importer might perhaps be required to pay for the costs of FDA inspection at the port of entry.) If this did not prove sufficient drug patents could be completely abolished. And only if drug price levels still prove impervious to reduction after all these reforms should such measures as price control or comprehensive public utility regulation of the drug industry be imposed. These latter remedies are likely to be less efficient in operation because of the absence of a competitive market criterion for prices of drugs under price control, and the general unsuitability of the drug industry as the subject of regulation of the conventional public utility variety. Hence these expedients should be regarded as last resorts, to be used only after every effort to inject price competition has been exerted.

Dr. STEELE. Prof. Paul Cootner, professor of finance at MIT, made a statement in which he discussed risk and rate of return in very general terms and made little reference to the particular economic situation of the drug industry.

I. STATEMENT OF PROF. PAUL COOTNER

(A) In his presentation, Professor Cootner makes each of these statements:

1. First, he admitted quite candidly, and I quote:

Now, I do not appear here as an expert on the drug industry, either with regard to its pricing policy or the riskiness of its investments (p. 1).