And with price competition, relative profit margins in different industries would reflect the scarcity of supply relative to demand and hence indicate the relative need for expansion of investment and productive capacity.

But if monopoly power exists, output may be restricted and prices and profits can be at high levels although the monopolist may actually have excess capacity and no need to expand his facilities.

Furthermore, discretion over prices may result in prices which are too high relative to costs and in resource misallocation relative to the outcome which would have prevailed in a purely competitive market.

If excessive profits, made by overcharging buyers, are plowed back into the industry by bypassing the investor's discretionary power over all profits, the investor benefits from what is tantamount to a capital levy on the consumer. The drug buyer thus contributes much of the capital—the great majority of additions to capital investment—on the basis of which the drug stockholders now expect high earnings because of the "risk" to which "their" capital is subjected. Furthermore, Whitney takes it for granted that this increase in capital value resulted in at least commensurate social gains; on page 4 he identifies these gains with increases in drug sales and with research and development expenditures.

But in neither instance is it necessarily the case that the true value of drugs or drug research is measured by dollars spent. The individuals most qualified to judge these matters are physicians and medical educators, and their judgments as recorded in public hearings on drugs have not been such as to encourage those who wish to equate dollars spent and value received in drugs.

(3) "Many hundreds of new drugs, as documented by earlier PMA witnesses, resulted from this profit-motivated research" (p. 4). This is misleading if the reader naively interprets this to mean genuinely new chemical entities. Non-PMA witnesses supply different "documentation." Dr. Martin Cherkasky has previously stated before this committee that the industry's claim in the early 1960's to have produced over 400 new drugs required more than 90 percent deflation. He said:

> On examination, only 29 of those were really new contributions. The rest of them were gimmicks, new dosages, new combinations that really hadn't much value ("Competitive Problems in the Drug Industry," pt. 2, p. 676).

And during fiscal 1967, FDA Commissioner Goddard stated that of the 83 New Drug Applications approved, 62 were for "what have been called 'me too's' or molecular manipulation." (Ibid., pt. 2, pp. 757–758.)

(4) On page 6, Whitney suggests that the lower prices charged by generic name firms reflect the absence of research, quality control, and original distribution costs on their part. This sort of approach is a favorite with pharmaceutical manufacturers associations. The Canadian PMAC made similar charges against Canadian generic name firms during their drug hearings for 1966–67, and, not unsurprisingly, it developed that small generic firms also incurred costs for quality control and research.

The chief cost savings of the generic firm is in the area of sales promotion, which was somehow overlooked by Whitney—unless