original distribution" is taken to be a very inclusive euphemism indeed.

In any event, the major firms are simply voicing their indignation about having to be faced with price competition even if it is only effective in the minute interstices of their total market.

I would refer again to Professor Schifrin's diagram, the roughly 5 percent of total sales by dollar volume, which would be a relatively higher percentage of the physical volume of drugs sold because of lower average cost.

What these firms do not realize is that any argument against price competition is an argument for price control. It is a long-established principle of public policy that where competition will not work, regulation must be substituted. "Do the lower prices charged by generic name manufacturers reflect willingness to operate on lower profit margins?" (p. 6). By no means. Price competition, such as prevails among generic firms, compels producers to be efficient and to accept the low-profit margins determined by competition. But the major companies would ordinarily have little direct experience with this.

(5) "What does it mean, after all, to say that a price is 'too high'?" (p. 7). Any trained economist would answer that it is too high relative to production cost, since this is the standard of efficient pricing in a competitive market. But Whitney invokes a sort of value-of-service standard in connection with prescription drug prices, implying that if the price does not exceed what it is worth to the buyer, then it is reasonable. But this is just the monopolistic practice of charging what the traffic will bear; the full value to the consumer is the absolute minimum price which can be exacted from him, and the major benefit of price competition to the consumer is that it allows him to obtain the goods at a price related to production cost as well as to demand, such that the typical buyer pays less for the goods than its actual maximum value to him, and thus enjoys some measure of what economists call "consumer surplus."

Under monopoly pricing, the average value of this surplus will be reduced, and under systematic price discrimination—the exercise of which requires considerable monopoly power—it may disappear entirely.

(6) "You have heard of large economies made by hospitals through purchases of drugs by generic name. Were all purchasers to do the same, many research-based companies would be put into serious straits" (p. 8). The implication here is that these companies would cease to do research. But since they spend only about 6 percent of their sales dollar on research and 25 percent on sales promotion, it would seem that much greater scope for economies lie in the marketing budget.

But even if research outlays were cut, much of this research could probably be more efficiently accomplished under nonprofit auspices, as mentioned under point 1. And a more equitable distribution of the cost of drug research might also be accomplished if more of it were publicly financed. Although drug spokesmen have defended the price of drugs by reference to research costs on innumerable occasions, I have never once heard of them raising the question of the propriety