

elements which contribute to basic risk and those identical elements which, by resulting in monopoly returns, provide earnings greater than those justified by risk. The confusion can only be resolved by assuming that all industries being studied are purely competitive. If this assumption is contrary to fact, then it is not sufficient simply to speak vaguely about factors influencing risk, and about monopoly returns, as if they were two different things. Instead one must devise a better theory to relate rate of return to risk and monopoly power more explicitly and satisfactorily.

IV. COMMENTS ON THE STATEMENT OF GORDON CONRAD, AND ON THE A. D. LITTLE STUDY, "TRENDS IN MARKET SHARE FOR ETHICAL PHARMACEUTICAL PRODUCTS"

A. General comments

(1) On page 1 of his statement, Conrad states that the Little study shows "a significant degree of interproduct competition." But we do not know how significant the data are for drugs until we have data from other industries with which to compare them. Risk, being subjective, is a relative matter and until it is shown that other industries have less interproduct competition, the Little study will remain inconclusive.

(2) Even more important, this so-called interproduct "competition" cannot be beneficial to the consumer unless it results either in price competition or in genuine improvements in the quality of the products. Otherwise we have change, and perhaps wasteful rivalry, but no progress. Yet on the very first page of the Little report we read: "This report does not explain the reasons for competitive changes over the time period since this would require revealing product names and company strategy." This effectively prevents the study from making any real contribution to answering the real question: is the economic performance of the drug industry beneficial to the economy and the consumer?¹

(3) Conrad's statement concludes:

These results illustrate one aspect of the potentially high risks facing pharmaceutical manufacturers, that of the genuine uncertainties as to the length of time any one product can be expected to contribute to the company's profits.

¹ This same point was debated during Kefauver's hearings on the drug industry anti-trust bill in 1961. At that time Professor Markham placed great emphasis on the amount of turnover or change in the rank order of market shares by products in a particular therapy category. But to assess the degree of workability of competition evidenced by such turnover, one should determine how it was brought about: by price competition? by product improvement? or by less beneficial means? But Markham seemed to believe that turnover was a good thing for its own sake, and at least at the time of his appearance had not analyzed its causes. When asked just what was the value to the consumer of turnover if there were no price competition, he responded: "I would still prefer, even if the prices are the same, and this I know nothing about, that the firms that are trying to serve my needs as a consumer feel that somehow or other they, through product innovation, or by whatever means—the development of new products, new processes, new drugs—are getting my consumer's outlay in terms of competitive activity" (pp. 2105–2106). During questioning, Markham conceded that he had not examined the facts as to whether or not any drug firm had experienced a change in relative sales rank because of price competition (p. 2096). Markham agreed that price competition is of paramount importance to the consumer, but concluded his contribution to the hearings with this statement: "I have not made any careful study of the workability of competition in the ethical drug industry. I was examining primarily these particular issues that seemed to be important" (p. 2111). This suggests that to Markham the issue of workability of competition was not important—but since he is known as one of the foremost students of the problem of workability of competition, the statement remains an anomaly.