

have already been mentioned in connection with the comments on the "Trends in Market Share" study.

(3) On page 23, Firestone develops an argument akin to Whitney's that the price of drugs should be judged in relationship to their "value" to the consumer rather than their production cost. Firestone's presentation, although less provocative phrased, is open to the same criticism that was made of Whitney—that use of the "value" criterion betrays a monopolistic pricing strategy.

B. Specific comments

(1) On page 8 it is argued that because there are 110 drug products in the wholesale price index, this "probably results in the drug category being more representative than most other categories of like weight" since the inclusion of only 21 products would be required to give the drugs category adequate coverage in terms of the relative "importance" of this category in the WPI compared with the total number of products included in the WPI. But it should have been made clear that the number of products included does not necessarily guarantee the representativeness of the data reported unless the reported products are themselves representative of the category in question.

(2) On page 11 it is stated that the PMA wholesale price index is limited to brand-name drugs only, which in itself makes it less than perfectly representative of all drugs. Firestone should have estimated how much bias might be introduced into the PMA index by excluding generics, and should have indicated how much of the industry's sales are in generic form.

(3) On page 16 it is claimed that patented drugs declined in price by 24.8 percent between 1949 and 1966, while nonpatented drugs had increased by 1.1 percent.

While it is not surprising to discover that prices in the competitive segment of the industry's market presumably increased, and while it is not likely that any segment of the industry could have experienced substantial price declines during an inflationary period unless initially uncompetitively high prices prevailed, the contrast between the price movements would seem to require some additional explanation.

There are two questions.

First, what sort of criterion was used to distinguish patented and unpatented drugs at various points in time? And, second, why did the price index for patented drugs seem to drop so appreciably?

Neither question is answered by Firestone, although one suspects that to answer the first question may largely answer the second. A detailed explanation of the criteria used to distinguish patented and unpatented drugs should have been provided.

Senator NELSON. When they use the term "patented drugs" here, are they referring to drugs that were patented but subsequently the patent ran out?

Dr. STEELE. That would be true of any drug which was patented.

Senator NELSON. It is one thing to say patented drug prices declined while the patent was still in effect and another to say they declined, if they declined, after the patent expired, is it not?

Dr. STEELE. Quite true.

Senator NELSON. Then if during a certain period of time, as you suggest, when costs are rising, the nonpatented drug prices rose, you might very well expect that, as in most products.