policy recommendations volunteered by witnesses varied all the way from a request that drug patent protection be extended from the present 17 years to a period of 25 or 30 years,[4] to a suggestion that some personal violence against certain drug makers and their lobbyists might be in order.[5] In part, however, the inconclusiveness of some of the economic aspects of the record is due to the 'trade secret' status afforded certain crucial cost data, and the consequent failure to insist upon the publication of actual production costs for some of the higher-priced patented drugs. To the economist, this is a most unfortunate omission, for such data are otherwise entirely unobtainable.

This paper is directed to the assessment of price competition among ethical drugs, and the extent to which such competition is prevented by the patent privilege. Before undertaking a detailed investigation of price competition in the various drug markets, however, it is desirable to describe the factors influencing supply and demand for ethical drugs.

II. ETHICAL DRUGS: THE MARKET CONTEXT

The most striking features of the ethical drugs market are the extreme inelasticity of demand and the monopolistic restriction of supply, with the element of rivalry (rather than price competition) taking the form of product differentiation through research and development.

As regards the nature of demand, the prescription drugs market is unique. Only a physician can order such drugs, but the patient must make the payment. Chemically identical drugs may be offered for sale under different names at widely varying prices, but the physician has no direct motivation to prescribe the lowest-cost brand, or even to become aware of prices at all. Furthermore, the demand for a drug which is efficacious in a given disease does not simply consist of the total demands of all individuals suffering from that disease at a given time. Instead, the relevant market for such a drug is composed of the total effective demands of all individuals who can be persuaded to consult physicians, and who suffer (or think they suffer) from whatever disorders physicians may be inclined or induced to prescribe the given drug in connection with. 'Ethical drugs' by

[4] Testimony of Dr. Chauncey D. Leake of Ohio State University, ibid., Part 18, p. 10433.

[5] Testimony of Mr. Mike Gorman, executive director of the National Committee Against Mental Illness. In commenting upon a speech by F. C. Brown, president of Schering, and then president of the American Pharmaceutical Manufacturers Association, he concluded: 'In fact, Mr. Brown went much further than Marie Antoinette, and he still has his head and his profits, too', ibid., Part 16, p. 8995.