

Production costs for prednisone are only a small fraction of the wholesale price. Rather than make public the actual production costs of individual firms, the Senate Subcommittee staff estimated the cost of a bottle of one thousand 5-milligram tablets of prednisone at \$13.61.⁴⁴ This cost estimate was attacked by industry witnesses as being too low, as not including selling and research costs, etc., etc., despite its being made unmistakably clear in the record that the cost estimate referred only to production costs. Actually, this cost estimate is quite generous. It is based on a bulk powder cost obtained by using the prices charged by bulk producers for sales of bulk powder to other firms, and hence includes not only their actual direct and allocated costs, but also some margin for profit. To determine the cost of tableting and bottling, firms which perform such functions on a contract basis were contacted, and the median cost quotation (not the lowest) was employed. The actual production cost of McKesson and Robbins is only \$8.99 for such a bottle.⁴⁵ This cost is only 5.07 per cent of the equivalent wholesale price of \$179 per thousand, and only 3.17 per cent of the retail price of \$283.33.⁴⁶

Price competition departs and then reappears on the scene with regard to the three newer corticosteroids. When Upjohn introduced methylprednisolone in 1957 ('Medrol'), it first had the market to itself, and only later licensed Schering, which had no chance to market its brand until 1959. Being 25 per cent more potent than prednisolone (a standard dosage form is the 4-milligram tablet as compared with the 5-milligram prednisolone tablet), its price per milligram was increased by exactly 25 per cent, so that the price per tablet is the same, and the introduction of the more potent product did not give rise to any price competition.⁴⁷ As a new drug, however,

⁴⁴ *Report*, op. cit., p. 34.

⁴⁵ Testimony of Dr. Herman Nolen, president of McKesson and Robbins, in *Hearings Before the Antitrust Subcommittee of the Committee on the Judiciary, House of Representatives, Eighty-seventh Congress, Second Session*, Washington, Government Printing Office, 1962, p. 15.

⁴⁶ While the present paper is not concerned directly with the retailer's markup of 66½ per cent, it certainly helps to contribute to the magnitude of the final price to the consumer. It is well known that retail druggists, like retailers everywhere, dislike price competition in practice, and favor high markups—the role of the National Association of Retail Druggists as one of the prime movers behind the 'Fair Trade' laws is notorious—and the complaints that high markups have failed to produce satisfactory profits for retail druggists is simply a consequence of the freedom of entry in the field and the over-capacity, low turnover rates and higher average unit costs which results from new entry in response to the high unit margins. It is pertinent to call attention to this point in view of the possibility that pressure may be exerted by organized druggists on the manufacturers to discourage any tendencies toward price cutting, or at least that the drug manufacturers may be aware of such distributor sentiment when contemplating possible price cuts. It must be admitted, however, that no shred of evidence on this point was offered (or sought) during the whole of the hearings.

⁴⁷ Data from *American Druggist Blue Book, 1959-1960*, as reported in the *Hearings*, op. cit., Part 14, p. 8324.