

cally, you asked that we discuss the methods of procurement, the degree of competition obtained, participation by small business and the use of section 1498 of title 28 of the United States Code to procure drugs covered by patents.

Our discussion today will focus upon the systems through which the Federal Government directly procures drugs from manufacturers and other suppliers. We would like to mention, however, that since our last appearance before this subcommittee in May 1967, we have conducted reviews of and issued reports on other aspects of the Government's drug-related activities. We have attached as appendix A to my statement, digests of these reports for your information.¹

There is a growing involvement by the Federal Government in drug procurement, encompassing its substantial role both as a direct provider of medical care and treatment to certain classes of persons and as a supporter of federally financed programs which include the provision of drugs for eligible beneficiaries. During the 3 fiscal years 1967 through 1969, the total estimated Federal expenditures for drugs increased from \$514 to \$975 million. A substantial portion of these expenditures were indirect in that they consisted of the Federal share of the costs of drugs provided to beneficiaries under the medicare and medicaid and certain other programs. Drug costs under the medicare and medicaid programs, for example, increased from an estimated \$350 million in fiscal year 1967 to \$750 million in fiscal year 1969.

Although the major portion of Federal drug expenditures is indirect, the expenditures for direct procurements have increased from \$161 million in fiscal year 1967 to \$203 million in fiscal year 1969.

Three Federal agencies account for most of the direct drug procurement—the Defense Personnel Support Center, an activity under the Defense Supply Agency; the Public Health Service of the Department of Health, Education, and Welfare; and the Veterans' Administration. Each of these agencies operates its own drug supply system.

The Defense Personnel Support Center centrally manages about 1,100 drug items and in fiscal year 1969 procured an estimated \$103 million in drugs. The Public Health Service centrally manages about 600 drug items and in fiscal year 1969 spent an estimated \$6 million for drugs, about 86 percent of which were obtained under contractual arrangements made by the Veterans' Administration. The Veterans' Administration centrally manages about 450 drug items and centrally procured an estimated \$25 million in drugs in fiscal year 1969.

The Veterans' Administration also administers Federal supply schedule contracts under which Federal agencies can satisfy their drug requirements through direct purchase from drug manufacturers. Purchases under these contracts for fiscal year 1969 were estimated at \$56 million.

In addition to drug procurements which are centrally managed or administered, medical facilities of each of the three agencies can, in certain circumstances, locally procure their drug needs.

¹ See information beginning at p. 8051.