

assurance that these prices are reasonable, our survey indicates that these prices serve as the basis for most of the price reasonableness determinations made by the Veterans' Administration and the Defense Personnel Support Center.

Mr. GORDON. Mr. Staats, would you consider this a good test of reasonableness?

Mr. STAATS. We would not think so, no. I am not sure, though, that we are prepared to answer today, at least, exactly what would be a better alternative.

Perhaps my colleagues here would want to comment on this. But we think that they should have gone further than simply the wholesale prices.

Senator NELSON. The wholesale price in the retail marketplace—is that what we are talking about?

Mr. STAATS. I think that is right.

Mr. CROWTHER. Yes, sir.

Senator NELSON. Well, does not all the accumulated evidence on competitive bidding reject the wholesale price as a reasonable standard in any event?

Mr. CROWTHER. As a reasonable standard, yes, sir.

Senator NELSON. Let me cite an example. In the same month that Schering was selling Meticorten in New York City for \$17.90 a hundred to pharmacies, the firm offered to sell it to New York City for \$1.20 a hundred. Schering lowered the price from \$17.90 a hundred to \$1.20 and lost it on a bid at 45 cents from another company.

Now, if you were using their wholesale price, quite obviously it is not reasonable. There are other examples of that.

Mr. CROWTHER. I think both the VA and Defense Personnel Support Center found this to be true and that is one of the reasons in their competitive bidding they have been successful in substantially reducing the prices for central stock.

A problem here, of course, is the amount of procurements that are made under the Federal Supply Schedule where there are indefinite quantities. These contracts are negotiated with specific drug manufacturers without knowledge of the specific quantities of a drug that may be procured.

Senator NELSON. But is it not perfectly obvious that because of the method of promotion and sale in the retail marketplace, the wholesale price cannot be used as a standard of reasonableness for anything, because you may not have any serious competition in the retail marketplace?

Though you may have 25 versions of the same compound manufactured in the country, some of them generic and some of them brand name, the company that dominates the retail marketplace is the company that had the patent and had the doctors prescribing it for 17 years with the brand name. When the patent expires, the doctor continues to prescribe it by the brand name. He does not even know the patent has expired. He generally does not know that the drug can now be bought competitively: there are 20 other brands at half, a third, a tenth, a fiftieth of the price. He continues to write the brand name that he's used for years.