

tween the cost of the same compounds marketed under different names. What do you do about that? Is the taxpayer going to pay \$20 a hundred for a tablet because the doctor prescribes it by a brand name although it may be available at a dollar under a different name, brand or generic?

Mr. SEGGER. As Mr. Older indicated, they are attempting through their intermediaries to exercise controls on those costs. And there are studies going on as to ways and means by which we can improve the process.

Do you want to add to that, Mr. Older?

Mr. OLDER. No, except that I would like to say that, as you indicated, a good hospital has a formulary. There is certainly no difference in the kind of drugs that are prescribed for medicare patients or for other patients. We have a specific requirement in the medicare law that we are not to interfere with the practice of medicine. And we would have difficulty certainly in saying to a doctor that he should not have prescribed any particular drug or medicine. But this can be said by committees in the hospital where the doctor gets the criticism or the suggestions from his peers.

Senator NELSON. Well, when the Defense Supply Agency purchases drugs it asks for a bid under a generic name. And all you have to do is look at the difference between what the Defense Supply Agency will pay for a product and what the same company is selling to the retail pharmacist for 50 times or 100 times as much as Defense Supply Agency pays.

In one case they are in a competitive bid situation, and in the other place they are being prescribed by brand name. Perhaps you may be worried about the charge that you would be interfering with the practice of medicine. But don't forget that you are interfering with the taxpayer by permitting the use of a very expensive product when its equivalent is in the marketplace, and there is no doubt about its equivalency, aren't you?

Mr. OLDER. I think our only attack there is our prudent buyer concept; would a prudent buyer pay \$20 for it when he could buy it for a dollar? And that is something that our intermediaries consider in inquiring about costs in the hospital.

Senator NELSON. Are you taking specific drugs and checking the costs in this way?

Mr. OLDER. Yes, in certain cases. In our regional offices we have program validation teams that go in and see how the intermediary is doing and how the hospitals that they service are doing in implementing medicare rules. And part of this study is to see, for example, what the cost of a pharmacy department is. And in checking that we will take certain drugs and compare the costs paid by the hospital against the costs that they could have paid as a prudent buyer.

Now, it could be as a by-product of that question as to whether generic drugs should have been purchased instead of name brands. We don't have a requirement, however, that says specifically that you have to buy generic drugs.

Senator NELSON. No, I don't think anybody is suggesting that. But you should look at the bids that are made to New York City, the Defense Supply Agency, the State of Illinois, and the State of California, and identify the bidders.