orders; and (3) local purchase action initiated by each hospital for its own individual needs where time does not allow ordering from other sources. I repeat, each of these is an interrelated effort.

We have established definite criteria for determining which items will be supplied through the central purchase and distribution system and through Federal Supply Schedules. The basic determination relates to the lowest total cost of supplying these items by each method. We procure for central distribution only those items on which the total savings through volume purchase prices will more than offset the overhead costs of maintaining a central system. We do not measure the costs of central purchasing and distribution on the basis of the purchase price alone. Since the costs of maintaining central systems are borne by the taxpayer, we feel that comparisons which relate to price only and not to total cost to the Government are incomplete and constitute unfair competition with private enterprise, especially small business wholesalers and distributors. Our current practice is to use this method of supply when the savings in purchase cost are approximately 12 percent greater than those we can obtain through Federal Supply Schedule contracts or local procurement.

On November 30, 1973, we stocked 633 drug items in three depots. These 633 items represent less than 2 percent of the various drugs and different brands of similar drugs available from Government stocks or from Government contractors.

In 1973 these 633 items accounted for $41 million, or 42 percent of the total VA drug budget. Because of their budget impact, we have concentrated on these.

Of these 633 drugs, 369—representing $34 million annual usage—are available from only one source, either because of patent rights or because there is only one firm holding an approved effective New Drug Application.

An additional 88 items—representing $2 million annual usage—are procured from a single source. In this category are those drugs which are manufactured in comparable formulations, but are not packaged by all manufacturers in the dosage form or size we require in our system. We are attempting to increase competitive procurement in this category and 19 of the 88 drugs will be procured generically at the time of our next purchase. Seventeen more being studied to see if we can increase competitive interest.

Since appearing before this subcommittee in 1971, we have increased the total number of items stocked on a generic basis from 105 to 176, and have increased the annual dollar volume of procurement for depot stock from $2 million to over $5 million. This is 17 percent of the drug item or over 30 percent of the drug item itself. We expect continuing progress in the near future. Since patents on several drugs of substantial cost have recently expired, we anticipate the number of firms who will obtain approved NDA's to market these products will increase, offering us opportunities for further competitive procurement. You might be interested in the statement of "Drug Topics of 1973" of a November study. It said 12 to 14 percent of prescription drugs sold in the United States are sold on