COMPETITIVE PROBLEMS IN THE DRUG INDUSTRY

(Present Status of Competition in the Pharmaceutical Industry)

WEDNESDAY, MARCH 19, 1975

U.S. SENATE,
SUBCOMMITTEE ON MONOPOLY OF THE
SELECT COMMITTEE ON SMALL BUSINESS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:10 a.m., in room 318, Russell Senate Office Building, Senator Gaylord Nelson (chairman of the full committee) presiding.

Present: Senators Nelson, McIntyre, Haskell, Hathaway, Javits, Beall, and Brock.

Also present: Benjamin Gordon, staff economist, and Kay Klatt, research assistant.

The CHAIRMAN. Our first witness this morning will be Mr. Caspar Weinberger, Secretary of Health, Education, and Welfare, and he is accompanied by Dr. Alexander Schmidt, Commissioner of the Food and Drug Administration; Dr. Theodore Cooper, Acting Assistant Secretary for Health; and Mr. Stephen Kurzman, Assistant Secretary for Legislation.

Mr. Secretary, the committee is very pleased to have you here this morning. I appreciate your taking the time from your busy schedule to appear.

The Monopoly Subcommittee of the Senate Small Business Committee is today resuming its hearings on Federal expenditures on pharmaceuticals. This subcommittee has for many years been holding hearings on the efficiency, economy, and rationality of the Federal agencies and departments in the procurement of drugs, as well as reimbursement under various Government programs. We are particularly interested in finding ways in which competition can be promoted for the benefit of small business and the public and the cost of drugs under medicare and medicaid to Government can be reduced.

On December 19, 1973, the Secretary of HEW announced that reimbursement for drugs under medicare and medicaid, which at present amounts to $2.5 billion, will be limited to the lowest cost at which the drug is generally available unless there is a demonstrable difference in therapeutic effect. It was estimated that this policy could result in savings of 5 to 8 percent to the taxpayer. Since about $2.5 billion is spent annually on these two programs, it appears that annual savings to the taxpayers could amount to as much as $200