performance and the research of the major companies in this industry. It is not just research. There are other things that you demand in a multisource product that cannot be paid for and taken care of if you operate on the basis of the lowest price product available.

The CHAIRMAN. Well, we have proposed Government posture which says that we will—what is the phrase used?

Mr. STETLER. You mean in the MAC regulation?

The CHAIRMAN. Yes.

Mr. STETLER. They will only reimburse under medicare and medicaid for the lowest priced drugs product generally available.

The CHAIRMAN. The lowest priced product generally available and which I assume meet all compendial standards.

I don't understand what is wrong with that standard. Are you suggesting that in the case of a compound that was discovered by someone on which a patent was granted and during the course of the period the company was charging whatever price it thought it could charge and that when that 17 years is over, they haven't really received the total reward that they are entitled to? They obviously have under the law. As I understand it, you are saying that there is something more the drug company is entitled to, that it ought to be able to continue to charge maybe not 5 or 10 times as much as competitors, but perhaps twice as much, and the Government ought to pay that additional price? Is that what you are saying? I would like to get it clear in my mind?

Mr. STETLER. Not exactly. What we are saying is that if you adopt a program that is only going to compensate the lowest price producer, the man you are going to advantage, and the producer you are going to select as your choice, is going to be the cost cutter. He is going to be the commodity supplier. He is going to be the man that may not have the capability to have a good recall program, he may not have all the quality assurances that you want and demand. He certainly isn't going to be able to accommodate much of a research program. A quality-conscious full-line research manufacturer cannot compete with the lowest priced producer on the market. He hasn't had to go over the hurdles that the firm processing a New Drug Application has to go over when he gets a new drug approved by FDA, patented or not patented. There is no mystery as to why the marginal operator can compete more successfully. But you don't want to relegate the drug industry to that kind of a pasture, and you don't want to limit beneficiaries under medicare and medicaid to that kind of a product. Now, if you don't accommodate some of these additional costs in the price that you set, that is what you are going to buy.

The CHAIRMAN. You are asking the Government to take a posture, adopt a policy with respect to the drugs, when they don't as far as I know adopt a policy affecting any other product in the world.

Mr. STETLER. I don't know of any other produce where they have got any price fixing mechanism.

The CHAIRMAN. The Government goes out frequently and gets all kinds of contracts that cost too much money. But when they are in the competitive marketplace, they try to get the lowest priced drugs that meet the standards that they demand.