We agree that the profitability of the drug industry is above average. We say this is not a unique phenomenon. It is one which characterizes rapidly growing industries generally where there is a high rate of new product innovation. Other innovative growth industries today, such as aerospace instruments and photographic goods, office equipment and computers, also return higher than average profits on capital invested.

On the other hand, the more stable, less dynamic industries, such as cement, iron and steel and textile products, tend to have lower profit margins. As a result, capital and management are attracted to the growth industries, intensifying the competitive nature of these industries and their rate of innovative progress. Above average profits in innovative growth industries perform a valuable economic function by serving to allocate capital and management resources where they can be most productively and beneficially employed.

We hold that the industry's profits are healthy and desirable. They provide the incentive to manufacturers to continue to operate their businesses the way they do, and the incentive to others to invest capital and resources in such companies.

With all the important and unfinished tasks that lie before the drug industry, we submit that it would be a grave mistake to arbitrarily reduce its profits and thus ruin the chance of reversing the major allocation of private capital resources to this industry that has proven so beneficial to the public over the past three decades.

*The Issue of Promotional Expenditures*

Some earlier witnesses have expressed the belief that pharmaceutical manufacturers spend "too much" in promoting their products and that they could materially reduce their prices by spending less. Their underlying theme seems to be that either the government or the manufacturers themselves should take steps to cut down the size of expenditures for advertising, sales representatives and other forms of conveying drug information to physicians.

We believe this to be a very strange and dangerous doctrine. Whether couched in terms of government regulation or in terms of collective arrangements among manufacturers, it goes to the heart of the competitive principle that our economy functions most effectively and efficiently when individual businessmen make individual decisions on how to make and market their products.

It is self-evident that no manufacturer spends money for the fun of throwing it away. Money is spent on promotion and marketing and on keeping physicians currently advised on drug products because, in the judgment of the manufacturer, the expenditures so made will have a direct favorable impact on sales volume and profits.

Individual decisions in these matters are the essence of a free market economy. Obviously our antitrust laws forbid any group of manufacturers from agreeing among themselves to reduce or eliminate competitive factors such as promotion expenditures, so that the same sales volume and market shares can be achieved with a lower competitive effort and a lower level of expenditure per manufacturer. Nor is there any way for the government effectively to regulate the volume of promotional expenditures or any other element of the cost of doing business. Regulation of this type is wholly impracticable, is bound to result in inequities, and is certain to deprive the public of the benefits of a free market economy. Only in times of gravest national emergency have we ever resorted to the regulation of manufacturing prices, and even then we have never been so foolish as to regulate the amounts individual manufacturers can spend to develop and manufacture their products.

Moreover, the professional judgment of the government official responsible for regulating the safety, efficacy and distribution of prescription drug products appears to be that the amounts spent on drug advertising and labeling serves an important public health purpose. On April 17, 1967, FDA Commissioner Goddard, in issuing "FDA Concepts for Proposed Revisions of Medical Advertising and Labeling Regulations," had this to say on the value of journal advertising and labeling: "We believe that good medical advertising is essential to good health in America today. The educational value of journal advertising and all forms of labeling is greater than the dollar outlay for it."

It should be borne in mind that the selling efforts of ethical drug products are made up of quite different activities and expenses from those of ordinary consumer products. You will hear from subsequent PMA witness about the activities of detailmen in supplying current information to doctors on the subject of drug