

An inelastic demand in the case of a valuable drug means a total demand by every single person who needs it. That is not true, to my knowledge, of any other single product in the marketplace in America.

Dr. COOTNER. But all I am simply saying is that the drug industry, the total sum of all drugs is very much like the total food industry, total sum of all food. Any individual product, of course, any individual food product is not necessary to existence, but all food products taken together are necessary. But I don't think we are in any substantial disagreement.

Senator NELSON. I see.

Dr. COOTNER. Drugs are necessities, and it is precisely because the drug industry is a supplier of necessities that I suspect that this subject is of such great interest to the committee.

Senator NELSON. But there are all kinds of alternative choices in food. There is such a great variety, you can be a vegetarian or not, you can consume any number of a thousand different items. However, if a drug is discovered that performs an important health function, and it is patented, there is an inelastic demand in the sense that every single person in the United States who needs it will want it and will pay for it, and it is shielded from competition for 17 years. So I just want to get that sharp and, I think, significant economic distinction into the record at this time, unless you disagree with me.

Dr. COOTNER. No.

I will continue: My role in these hearings is to relate this price-profit nexus to its implications for industry's ability to engage in risky, innovative activity and continue to attract capital. I will be establishing the meaningful relationships that empirically exist between industry risk and the rate of return required by investors. It will be left to subsequent witnesses to establish the drug industry's role in this process.

In an economy such as ours, which is largely directed by a large number of firms and households, all responding to opportunities and hopes for financial gain, it is inevitable that some will prosper and others will fail. When opportunities arise, men will jostle each other to seize them and it is unlikely that they will all share the gains equally. Some, hopefully, due to skill will choose a better or faster route to satisfying a need and earn a better return in the process.

In our relatively unregulated capital markets, investors are free to back the enterprises that they judge will be most successful. In doing so, they must inevitably make judgments about the management of the enterprise, the likelihood of success, and the prospective rate of return. They not only evaluate the particular enterprise but they must compare it with all other relevant alternatives.

Now clearly, an investor would like to earn a good rate of return on his money. It does not follow, however that he will always put his money to work at the highest rate of return available. The U.S. Treasury is grateful for this "quirk" of investors, for while Government bonds offer very high yields by historical standards, those interest rates are substantially lower than investors could get from buying the bonds of corporations and still less than those available from buying corporate common stocks.

Investors, for the most part, do not accept these lower yields out of charity or patriotism. They buy U.S. bonds because those bonds offer