them something that corporate bonds cannot—immunity from the fear of bankruptcy. In short, such investors are willing to sacrifice gain in order to avoid risk.

When an industrial entrepreneur forms a new firm, or finances a new investment, he must attract equity and debt capital from either his own resources or those of the public. He must convince himself, or other investors, that the prospect rate of return on the capital will be adequate. In this industrial investment, as in the purchase of bonds, the adequacy of the rate of return must be judged in the light of the risks involved. A man will not prospect for gold or oil at the same rate of return that suffices for an electric company, nor will he finance the development of some exotic new technology for the same return as on shoe manufacturing.

Senator NELSON. May I interrupt here for a moment?

Dr. COOTNER. Certainly, sir.

Senator NELSON. Your statement that a man will not prospect for gold or oil at the same rate of return that suffices for an electric company; nor will he finance the development of some exotic new technology for the same return as he could get on shoe manufacturing, he would do it for the same return if the risk were the same, wouldn't he?

Dr. COOTNER. If the risk were the same, yes, sir; that is right.

Senator NELSON. So, do you address yourself to the risk question?

Dr. COOTNER. Right. I chose the particular cases because I thought and, perhaps, wrongly, that they were prima facie cases where the risk was greater than in the alternative. That is, I assumed that prospecting for gold was an obviously more risky, alternative than electric utility investment.

Senator NELSON. The real test then it seems to me is the consistency of profits, and the consistency of the companies in the industry, their capacity to stay in business and make a profit, is it not?

Dr. COOTNER. That is right.

It is the question of the relative risk; yes, sir.

Senator NELSON. Are you going to give us the statistics for the past few years on the profits in the drug industry and also examples of the drug companies that have gone out of business because the risk was so high?

Mr. CUTLER. Mr. Chairman, those subjects are going to be covered by the witnesses who follow immediately after Professor Cootner demonstrates the relationship between risk and return.

Senator NELSON. I read all the statements and I didn't see anything in any of them that related to the specific question that I have raised here as to how many companies have gone out of business in the past 10, 15, or 20 years, and how their profits have compared in the past 10, 15, or 20 years with profits in industry in general in the country. I saw the statements, but no specific examples, and I raise the question at this time so that the other economists will have a chance to think about it while Dr. Cootner is testifying.

Dr. COOTNER. I will proceed. It can be empirically demonstrated that this is so, but it is more than a passing fancy of this year's crop of investors, or even this century's crop. This attitude toward risk is deeply imbedded in our legal code. Thus, while trustees of an estate