Now, the statement that you are making makes all kinds of empirical judgments which I am not qualified to evaluate. As I say, if you can show that you will reduce risk at the same time that you reduce the rate of return that is defensible, but that is an empirical question.

Mr. GORDON. That is right. I made an empirical statement. You are making an assumption which apparently is not necessarily grounded in reality; isn't that correct?

Dr. COOTNER. Well, it is possible that either my statement is not realistic or your statement is not. That is, I can't——

Mr. CUTLER. Professor Markham would be glad to take you on right now.

Dr. MARKHAM. I am not hankering to take you on, sir. I think I would quibble with you that the statement you have made is an empirical one. It is the statement of an opinion. What we are talking about in this presentation largely are matters of fact. I did not see the statement you read, any empirical evidence that says that risks and rate of returns empirically are derived from the same symptom or same disease, whatever the statement was.

Mr. GORDON. I didn't say it was an empirical statement.

Dr. MARKHAM. He did.

Dr. COOTNER. I made the statement that it was a hypothesis, if the hypothesis held then we ought to find evidence from the data and if we can't then it is a different proposition that I am stating. I think the conditions you referred to are clearly met in my statement which says if the industry is risky and competitive then you cannot lower the profits by administrative action without at the same time reducing the risks, if you can propose such a technique for reducing risks and profits at the same time that is a matter that can be discussed empirically and tested and established in connection with evidence.

Mr. GORDON. Let's go a little further.

You say here that the high risk-high profit relationship is an average or long-run phenomenon. Do you mean by this that short-run losses or great gains may well occur, but over the long-run the extraordinary successes and failures will balance out?

Dr. COOTNER. That is correct.

Mr. GORDON. All right.

Now, isn't it true that this balancing out seems to be absent in the high-profit drug industry?

Dr. COOTNER. Well, that is an empirical question.

Mr. GORDON. Can you tell us, say, for the past 10 years about 1 year in which the average profits of the drug industry fell below the average profits of industry as a whole?

Mr. CUTLER. Mr. Gordon, Professor Cootner is trying to testify as to the theory of the relationship between risk and return as an economic principle. We are then going to present to you, as you have seen in the papers we have here, through the immediate succeeding witnesses, the measurements of risk we have tried to make in the drug industry, that is empirical data which you may disagree with.

As to the conclusions which you would draw or we would draw from that data on risk in the drug industry Professor Markham is prepared to testify about that. But I think we would have a more logical, orderly discussion if we could first establish the theory and then go on to the