

Mr. CUTLER. He is not going to go away. He will be here ready to answer any question, but at that point you will have had this statement, this study, put into evidence, and Mr. Plotkin will have had a chance to explain the theory of that study and answer any factual questions you may have about it.

Mr. GORDON. In other words, Dr. Cootner is not going to speak about the drug industry at all; is that correct?

Mr. CUTLER. If you ask him questions about this study we are about to present on the drug industry as to its theory and methodology he can certainly speak to that as an economist. But as to his knowledge of the drug industry from other economic studies, he doesn't have that. Professor Markham does have that to a considerable degree.

Mr. GORDON. All right.

Senator NELSON. Your presentation and the division of the labor is so sophisticated that the line between what each of the witnesses is prepared to answer isn't perfectly clear to the committee.

Mr. CUTLER. We understand that very well, sir, and this is why we suggested that we have a chance to put in the four papers and then all four can answer questions, whichever is best suited according to his specialty.

Senator NELSON. I wouldn't object to the witnesses answering any question addressed to any other witness if it would help.

Mr. CUTLER. Fine.

Senator NELSON. Go ahead.

Dr. COOTNER. I am on page 9 and we just discussed the effect of administrative action on the profits of an industry without reducing its risks at the same time.

Such an impact could evolve in two different, but interrelated directions. If a company had no control over the risks it faced, it would simply find investment less attractive and reduce its level of capacity. If the reduction in return were great enough, investment might virtually cease, except for the outlay of funds necessary to protect existing investment, and the industry would gradually decay.

To find the extent, however, that the firm can control the riskiness of its investments, it has another alternative. It will try to reduce its exposure to risk. A natural gas exploration company, for example, might shift from looking for new fields to the more intensive development of existing fields. A research-oriented company would try to reduce its investment in more risky basic research in favor of the development of variants of existing, well-researched products, or toward improved or increased marketing of existing products. A manufacturing concern might find itself less willing to risk building capacity in anticipation of demand, or to be less quick to introduce new products. If none of these risk-reducing alternatives were available, the lower profits would result in a drying up of capital sources and a gradual reduction of the industry's activities.

I would be foolish to claim that profit restrictions would lead to the demise of industry, but there is no question but that such limitation—again without a concomitant reduction in risk—would lead to a different kind of economy than Americans have been used to, one that was less aggressive in anticipating demand and less prompt in accepting innovation and change.