In stating these implications of profit restriction, I wish to emphasize the point with which I introduced my testimony: That one cannot arbitrarily alter the prices of an industry without altering its profit. If excess profits exist, price reduction may do no harm, but the question of prices cannot be discussed in a vacuum. If present pricing produces profits no larger than those required by the risks of the drug industry price reductions will lead to reduced investment.

It is for the witnesses who follow me to discuss that point.

Mr. GROSSMAN. May I ask a question?

Dr. Cootner, I might ask you in general terms, if risks are not borne out by some losses after a certain period of time, can't we change our estimate of the industry somehow? For example, one of your, one of the gentlemen who will testify today, Dr. Whitney, has said "20 years are too few in any case to deduce absence of risk from continuing profits. Look at what happened to the railroads or for that matter meatpacking, sugar, and textiles."

Would you go along with that, we have to wait 20 or 40 or 60 years, year after year of high profits, and we're still to believe that this is a high-risk industry?

Dr. COOTNER. Well——

Mr. GROSSMAN. I am not asking you in terms of the drug industry, but in general economic terms.

Dr. COOTNER. I understand. I would certainly say I would take all new information as it came and use it to adjust my a priori expectations. If you were a classical statistician you always want to wait until all the information is in. I don't think that you have to do that when you are making decisions as time goes on.

On the other hand, I do agree with Professor Whitney's implicit statement which is that there are a lot of risks which are virtual—which may not show up for a long time and yet which influence prospective action.

Let me give you an example which I do know something about. If you look at the rate of return, for example, on IBM, on its assets, it is quite high, and the rate of return on its stock has been also quite high. If an investor at any one time anticipated that the rate of growth of profits of IBM was going to continue at the same rate in the future that it had in the past, he would find that the stock is actually worth a lot more than it is presently selling for. One of the reasons this extraordinary rate of profit continues is because there is always the expectation that its predominant share of the market may not continue.

Now that may be an incorrect expectation and if it is anybody within the sound of my voice can profit from that.

Mr. GROSSMAN. Is there any period of years, for example, he says 20 years are too few, I mean specifically, can you say there is any term of years that we should wait to watch and decide?

Dr. COOTNER. No, I don't think there is any particular term. I think—for example, I used in my study, about 17 years, and Mr. Plotkin and Mr. Conrad used 16. I do not take the point of view that you cannot ever or you must wait 50 years in order to make a decision that the risks are too high. I think if you could really state that in 20 years there was no evidence of risk then I would be willing to say that that was sufficient to decide that there was no risk.