Mr. GROSSMAN. Do most industries like, for example, the insurance industry, build up reserves to meet these risks? Don't most industries build these up?

Dr. COOTNER. Well, some risks are more insurable, that is predictable than others, and—it is easier for a company like an insurance company to foresee the potential magnitude of risks and plan for them. As a matter of fact, it is much more difficult for a manufacturing company which cannot retain earnings in excess of current needs without running into some difficulty with the Internal Revenue Service to establish such reserves. It is abstractly possible, but I think in practice that isn't the way it is done, except perhaps in banking and finance, where the risks are a little more predictable.

Mr. GROSSMAN. I think you mentioned once the words excessive profits. Could you explain basically how you interpret excessive profits? If you could apply it to the drug industry it would be helpful. I don't know if you could.

Dr. COOTNER. Well, excessive profits in the abstract sense in which I was discussing it would be profits in excess of that required to attract capital, given the existing risks in the industry. That is if you could show, for example, that a company earned very high profits and did not in fact have more risk than any other company then those extra profits would be excessive.

Mr. GROSSMAN. If a company was showing a profit over 15 or 20 straight years would you have to look in terms of exceessive profits even if the profits were to, say, one of the leaders of all industries, if they were the highest?

Dr. COOTNER. There is where we have a problem and it is the same problem that I raised in the discussion with Mr. Gordon.

For example, suppose that you start with a very high initial rate of return, and subsequently you face risks on new investments. The average rate of return on all your assets is going to remain high. It will not necessarily fall below zero or even below the industry average and yet it will show a continuing diminution or fluctuation because of the varying rates of return on new investment.

Now, again if you allow for that phenomenon, then I agree with your statement that you make, that is if a company shows that it never has any substantial risk on additional investment, that additional investment takes place at a high average rate of return that is very stable then I would agree that that is not a risky company.

Mr. GROSSMAN. One final question: Could you tell me as an economist, do you think it part of your job to assess an industry in terms of its social responsibility at all.

Dr. COOTNER. Well, it is a very difficult question. Certainly an industry should be aware of its social responsibilities. The problem is that in the last analysis the industry has to attract capital from investors who are relatively unconcerned and who in fact get no return from accepting the social responsibility. A stockholder cannot bask in the knowledge that he is performing a social service.

Now, within the limits imposed by the requirements for raising funds, I think any industry should pay attention to its social responsibilities.

Mr. GROSSMAN. You would say though it is a factor?