

Dr. COOTNER. Yes, sir, I would agree.

Mr. GROSSMAN. Thank you.

Mr. GORDON. Dr. Cootner, I just want to ask you one thing: You talk about prices being lowered as a result of Government fiat, Government regulations. But you also assume that the costs are not regulated or controlled. Isn't it more reasonable to assume that if prices are controlled, costs also would be controlled?

Dr. COOTNER. Well, I don't know that that is the practice that exists.

Mr. GORDON. Let's take the American Telephone and Telegraph Co. as an example.

Dr. COOTNER. Yes.

Mr. GORDON. Only certain items approved by the Federal Communications Commission can be worked into the rate base.

Dr. COOTNER. Oh, yes.

Mr. GORDON. Not everything that they spend can be put into the rate base.

Dr. COOTNER. That is true. It is certainly true, for example, that they are not allowed to—certain kinds of advertising are not allowed in the rate base. But whether that is an advantage to the firm or not depends upon what the efficacy of the advertising would have been, and it may be in fact that you actually reduce the profitability of an industry by preventing it from incurring certain costs, for example, during the war, as part of a clear view of the Government about the social priorities we prevented automobile manufacturers from expanding capacity to produce private civilian automobiles. Now that didn't help their profits although it certainly reduced the costs they incurred.

Mr. GORDON. But isn't it more reasonable to assume, if you are going to make any assumption at all, that if prices are going to be regulated by the Government, costs also would be?

Dr. COOTNER. Well, you know, wages are not. I am not saying that you can't regulate some costs, but it would only affect my argument if the regulations of costs in fact resulted in a rise in profits. If you lower the profits by reducing prices and then increase profits by reducing costs then you haven't lowered profits in which case there is no problem with anything I say.

If you can reduce prices and costs simultaneously for an industry so its profits are not changed you obviously have influenced the investors not to view the company with any more disfavor than you did before.

Senator NELSON. Under your definition of a high risk company, that is the part of the definition involving stability on the profit side for 17 or 20 years, a very high percentage of all American industry is high risk industry then, is it not?

Dr. COOTNER. Well, all American industry has risk of some degree. Obviously, only roughly half of the industries have above average risk, I mean that is a property of the median. There are a lot of risky American industries. I am not trying to be fussy, it is just not clear what you mean by high risk. Certainly risk is comparative and certainly many industries are more risky than many others. Risk is not a property solely of the drug industry or of any other single industry.

Senator NELSON. The reason the question comes before us is that the industry asserts continuously that this is a special situation, a special industry, that is very high risk and, therefore, very high profits are