

Dr. WHITNEY. They have tried that already. They do not need our advice to do this. They are all struggling to do this. Parke, Davis just led off this week—

Mr. GROSSMAN. You really think they are struggling?

Dr. WHITNEY. And you think it is so easy.

Mr. GROSSMAN. I certainly do not.

Dr. WHITNEY. Then we agree.

Mr. GROSSMAN. I know it is a struggle.

Dr. WHITNEY. I shall go on.

If profits are reduced to average, either new capital will avoid an area with the continuing risks of this industry but no chance of a corresponding profit, and managements will diversify out of ethical drugs and into products of less importance where profits can be earned without drawing public or congressional resentment, or human nature will be found to have changed and people to be employing their savings with the primary purpose of helping their fellow men. I would expect the first.

What have the drug industry's reinvested profits accomplished? First let me cite two statistical series. The public demand for drugs has been met with a rapidly rising physical volume of production. Consumer purchases of ethical plus proprietary drugs and sundries—an increasing proportion, now over 60 percent, being ethical drugs—expanded by 5.5 percent annually from the first postwar year, 1946, to 1966, as compared with only 3.7 percent for all other consumer expenditures.

The second series, research and development expenditures by the industry, advanced from \$50 million in 1951 to \$416 million in 1966—faster than either profits or net worth. Total R. & D. for 1957–66 seems to have been greater than dividends paid.

In 1965, according to the National Science Foundation, 95 percent of this R. & D. was financed privately, as against only 45 percent for all of industry.

Many hundreds of new drugs, as documented by earlier PMA witnesses, resulted from this profit-motivated research. What they have done for health need not be detailed to this informed body. As an economist, I shall merely mention that the monetary value of working time saved through improvement of physical and mental health and lengthening of life is probably in the billions.

We imperil further gains if we strike at so-called “excess” profits which, in fact, have furnished the driving force. For a mere 6 cents in dividends per dollar of sales of all types of products made by companies classified in this industry, or less than a cent and a half in dividends for each dollar of total medical care costs, the industry has done its essential job. This is not primarily one of basic pharmaceutical and biological research—though it happens to lead all industries in percentage of R. & D. going to basic research—but one of discovery and bringing into use of new medicines. Eliminate 2 of the 6 pennies in dividends—make them average for all manufacturing—and investor enthusiasm will decline to average also. Does anyone really expect enough psychological satisfaction from insuring that this one industry earns only average returns to warrant endangering future investment in the search for cures of our dread diseases?