

tor of the Bureau of Economics, and next to him is Mr. William H. Kelly of our staff.

I am Chief Economist and Director of the Bureau of Economics of the Federal Trade Commission. Prior to my current appointment, I was Chief Economist to the Select Committee on Small Business of the House of Representatives. Previous to that assignment, I was professor at the University of Wisconsin, from 1957 to 1961. I was assistant professor at the University of California from 1954 to 1957. I also have taught on a part-time basis at American University; served as a visiting professor at Michigan State University, and I am currently a part-time staff member of the Department of Economics, University of Maryland.

It is a privilege and a pleasure to appear before this subcommittee.

My appearance today is in response to the request of your Chairman that I submit testimony on the subject of profits in the drug industry, as well as present an independent analysis of the study "Risk and Return in American Industry—an Econometric Analysis," presented to this committee on December 19, 1967.<sup>1</sup> The study was sponsored by the Pharmaceutical Manufacturers Association and prepared by Gordon R. Conrad and Irving H. Plotkin of Arthur D. Little, Inc., in consultation with Prof. Jesse W. Markham and Prof. P. J. Cootner. Hereafter we shall refer to the study as the Conrad-Plotkin study.

Before turning to the study, we shall first place in perspective the profits of drug manufacturers by comparing them with those earned by business enterprises in other American industries.

Figure 1 shows for 1966 the average rate of return on stockholders investments of leading firms in 22 important American manufacturing industries. Profit rates of leading drug manufacturers exceeded those of large firms in the 21 other industries. In fact, drug industry profits were twice as great as one-third of the remaining industries; were 44 percent or more above those of all but four other industries; and they exceeded even such traditionally high profit industries as motor vehicles and computing machines.

Nor was 1966 an exceptional year. Table 1 compares over the period 1950-66, the average profits of large drug companies and large companies in the 22 industries shown in figure 1. Several points are of special interest. First, in the early years, 1950-55, average drug company profits were about equal to or somewhat above the average of other large manufacturers. Second, beginning in 1956, however, average profit rates of drug companies were well above the average of other large companies. Finally, since 1956 drug companies have consistently ranked either first or second among all large manufacturing industries. This indicates that during the last decade large drug companies have occupied an especially advantaged position relative to large companies in other American industries. Table 2 summarizes profit data of all drug companies and all manufacturing companies for the period of 1956-67. Over the period covered it shows essentially the same picture as table 1. Since 1956 drug manufacturers have failed to occupy first place in only one year.

<sup>1</sup> The study, "Risk and Return in American Industry—an Econometric Analysis," by G. R. Conrad and I. H. Plotkin, begins at p. 1746, *supra*.