

time drug profits on the average were very similar to the average of all American industry.

So, it is difficult to know precisely where this level is. I have little doubt in my own mind that it is considerably below the 21 percent level the large companies have earned in recent years, and there is not any persuasive evidence to argue that they would have difficulty getting capital if their profits were the same as most other American industries.

Mr. GROSSMAN. In the same line of questioning, what do you think is a fair return for the drug industry? We are talking in terms of social responsibilities.

What would you say would be a fair profit?

We have had a lot of discussion about the percentage return. Is there any specific percentage?

In other words, should we say: You can't go over 15 percent?

Isn't this all rather vague?

Dr. MUELLER. Yes, unless you are going to take a public utility approach which I find, personally, repugnant. Until we try other methods, I would not say that any particular percentage is appropriate. I would like to see the industry exposed more to the breezes of price competition and see what reasonable rate of return would be generated by competitive market forces, rather than to set arbitrarily some specific rate.

Senator NELSON. Is there any evidence that during the period you refer to, 1950-55, the drug industry was receiving profits fairly comparable to the average in all industries. Did the industry experience any difficulty in attracting investment capital if they needed it?

Dr. MUELLER. I just have not had an opportunity to look into that point. I think it would be interesting to see what the experience was. The observation I make, though, is that there are many examples of companies that were making profits by which this 21 percent standard would be very modest, in fact quite mediocre profits, or close to those earned by the rest of the American industry on the average. Yet they have been able to generate capital on their own or borrow it and grow effectively.

So, simply asserting that because someone is earning a high rate of return that this must somehow demonstrate that they must earn such a return in order to continue to grow is to just define the problem out of existence. And I am afraid that is what Professor Whitney might have been doing in his exchanges with you; at least that was my impression as I read the testimony last night.

Mr. GROSSMAN. Do you give any stock to his point about the railroads, how they prospered for 30 years?

Dr. MUELLER. I think he is factually correct, that they did profit for 30 years.

Mr. GROSSMAN. Then, I assume that there is a risk, and we will have to wait for 50 years before we can ever know?

Dr. MUELLER. I would not wait on the problems in the drug industry for 50 years to find out whether or not Professor Whitney's theory is correct.

With your permission, we will provide a brief supplemental memorandum to the committee should we have any additional observations after reviewing these data.